FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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N-power shadow over Frankfurt summit, Page 3

World news

Six die in S.African gold mine accident

SIX black miners died and at least four were seriously injured when a large steel container fell to the bottom of a shaft at the Randfontein Estates gold mine in South Africa.

The men were sinking a new shaft at the mine, 25 miles west of Johannesburg, when a steel rope snapped and a container used for hoisting rock and men dropped down the 800 metre deep shaft.

Rescuers only reached men trapped at the shaft bottom eight hours after the accident. Page 6

Punjab call for help

Punjab's chief minister asked Indian Premier Rajiv Gandhi to send 5,000 paramilitary reinforcements to the state after Sikh extremists fired machine guns into a crowded market place and killed eight people.

Salvadorean truce

President Jose Napoleon Duarte agreed to a 24-hour truce in El Salvador's civil war in response to Pope John Paul's appeal for a ceasefire in all world conflicts today. Guerrillas in at least nine countries and three governments said they would observe the truce.

Basque killing

Basque separatist guerrillas said they planted the car bomb which killed General Rafael Garrido Gil, military governor of the Basque province of Guipuzcoa and his wife and son in San Sebastian, Spain. Page 3

Dissidents freed

France freed 13 Algerian dissidents arrested last week after a police swoop on sympathisers of the left wing Moslem fundamentalist Movement for Democracy in Algeria, but said a decision was pending on whether to expel them.

Galtieri for trial

Former Argentine President Leopoldo Galtieri is to be tried on human rights charges in the northern city of Rosario before the end of the year. In 1985 he was jailed for 12 years in a military trial for negligence in handling the 1982 Falklands dispute with Britain.

Camp battle deaths

At least 13 people were killed in battles between Palestinian and Shia Moslem militia around three refugee camps in south Lebanon.

Aircraft explosion

At least 40 people were injured when a mid-air explosion rocked a Thai airliner, forcing the pilot to make an emergency landing at Osaka, Japan. Police said a mechanical problem may have caused the blast.

Enrile appeal

Philippines Defence Minister Juan Ponce Enrile – a critic of President Corazon Aquino's Government – appeared at a rally held by supporters of ousted leader Ferdinand Marcos and asked them to help the army defeat communist rebels.

Gulf ceasefire call

Gulf Arab foreign ministers meeting in Abu Dhabi in advance of next week's summit meeting are expected to reiterate calls for a ceasefire and negotiated end to the six-year-old war between Iran and Iraq.

Nobel winner's plea

Elie Wiesel, the 1986 Nobel Peace Prize winner, urged the Soviet authorities to grant emigration visas to the hundreds of thousands of Jews who, he said, wanted to leave the Soviet Union.

Prost keeps title

Alain Prost of France became the first man for 26 years to retain the world drivers' championship when he won the Australian grand prix in his McLaren. Title favourite Nigel Mansell (UK) finished two points behind after his Williams burst a tyre.

Business summary

Goodyear moves to head off hostile bid

GOODYEAR of the US, the world's largest tyre maker, acknowledged that it may be the target of a hostile takeover bid after two weeks of increasing Wall Street speculation that have driven its share price up by almost 25 per cent. The group has asked two leading investment banks to draw up restructuring plans aimed at heading off any unwelcome bidder. Page 26

EUROPEAN Monetary System: There was little overall change last week, but the prospects for stability appeared to improve. Apart from the lira, which is allowed to move in a wider band than other currencies, the D-Mark remained the strongest currency. The decline of the West German currency, against a rapidly improving dollar, should help ease strains on weaker currencies such as the Danish krone and Belgian franc, since the weaker members always have the greatest problems when demand for the D-Mark is strongest.

EMS Oct 24, 1986 — GRID — ECU DIVERGENCE — Limit — Position Oct 24 — ECU Parity

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO: Nikkei index fell 120.20 to 18,153.80 in Saturday's half-day session. Leading share prices, Page 47.

WEST GERMANY must intensify efforts to make its securities markets more attractive following London's Big Bang deregulation, said Wolfgang Röller, chairman of Dresdner Bank. Page 30

BHP shareholders approved plans giving them power to veto any partial takeover of the Australian industrial and resources group following an agreement between Bell Group and Elders IXL, which control 28.5 and 18.5 per cent respectively.

CLAUDE Pierre-Brossolette, chairman of Cerus, Italian financier Carlo De Benedetti's French holding company, resigned after a clash over the failure of a bid for publishing group Presses de la Cité. Page 27

FUJI Electric of Japan blamed exchange losses and lower product prices for a 46 per cent downturn in profits to Y1.33bn ($8.5m) for the half year to September.

TEXAS Instruments, largest US semiconductor maker, will lay off 1,000 workers to cut costs despite turnround to profits of $14m in its third quarter against losses of $82.8m a year earlier.

BENETTON, Italian manufacturer of casual clothes which recently gained a listing on the Milan Bourse, announced a L50bn ($36m) consolidated net profit for the first half. The group aims to have 4,000 shops in 57 countries by year end.

RENAULT, French state-owned car manufacturer, with debts of FFr 60bn ($9.2bn) plans to sell its headquarters building and other property to raise FFr 1.8bn and build a new "technological centre." Page 28

TEXACO, US oil group, will split its top job of chairman and chief executive between two people when John McKinley retires at the end of the year. Page 27

Britain to request EEC measures against Damascus

BY ROBERT MAUTHNER IN LONDON AND QUENTIN PEEL IN BRUSSELS

BRITAIN will today ask its European Community partners for a firm declaration of support for its decision last Friday to break off diplomatic relations with Syria.

The request will be made by Sir Geoffrey Howe, the Foreign Secretary, at a meeting in Luxembourg of foreign ministers of the 12, over which he will preside.

It was preceded by talks in London of the political directors of the member countries, at which the British representative informed his colleagues of "the conclusive proof" his Government had of Syria's involvement in the attempted blowing-up of an Israeli airliner at Heathrow airport and its 380 passengers and crew.

That proof it is stressed in London has been gathered quite separately from the evidence presented at the Old Bailey trial of Nezar Hindawi, a Jordanian by origin, who was sentenced to 45 years' jail after being found guilty of the attempt to blow up the airliner.

Although it is probable that Britain will find no difficulty in winning the moral support of its partners, it is much more problematical to what extent they will match their expressions of solidarity with concrete measures.

The kind of measures likely to be proposed by Sir Geoffrey are the withdrawal of EEC ambassadors from Damascus for consultation, agreement not to allow any of the Syrian embassy staff expelled from London to be posted to other operations, and stricter frontier controls on Syrian nationals.

However, nobody, including Britain, expects the whole Community to break off diplomatic relations with Syria.

Attention will be focused particularly on the response of France, the Community member state which traditionally has had the closest relations with Syria and which is concerned about the fate of eight French hostages held by Syrian-backed groups in Lebanon.

Mr Jacques Chirac, the French Prime Minister, is in an embarrassing position, both domestically and internationally over Syria. He has set out to improve both his relations with Damascus and Tehran as the only way to obtain the release of the hostages from their Moslem extremist kidnappers.

According to French newspaper reports, which have been officially denied, France is preparing to conclude a big arms deal with Syria, involving French sales of armoured vehicles, self-propelled artillery and laser night-sights. French officials have admitted only to honouring existing arms contracts.

However, Mr Chirac has come under increasing attack from political opponents who have cited allegations that Syria's intelligence services were involved in last month's Paris bomb attacks, in which 10 people were killed and some 160 injured. The Prime Minister's critics have accused him of failing to live up to pledges "to terrorise the terrorists." The absence of both Mr Jean-Bernard Raimond, the French Foreign Minister, and Herr Hans-Dietrich Genscher, his West German colleague, at a Franco-German cultural summit make it even more likely that Britain's partners will pull their punches, while expressing their moral support.

British prepare to quit, Page 2

Fiat bids for Alfa Romeo in $5.8bn move upmarket

BY JOHN WYLES IN ROME

ITALY'S Fiat group has mapped out an ambitious L8,000bn ($5.8bn) plan for strengthening its challenge in the international luxury car market against rivals such as Daimler-Benz, BMW, VW-Audi, Porsche and Saab.

This strategic move upmarket is the basis of Fiat's detailed proposals for taking over the ailing Alfa Romeo which were lodged on Friday evening with IRI-Finmeccanica, the state holding company which controls the junior Italian car producer.

Unveiling the proposals in Turin at the weekend, Mr Cesare Romiti, group managing director, and Mr Vittorio Ghidella, managing director of Fiat Auto, appeared supremely confident that their bid would beat off a rival offer to buy Alfa which was made by Ford at the beginning of the month.

"Our aim is to create a company specialising in high performance prestige cars with the sporty aggressive characteristics of Alfa and the luxurious comfort of Lancia. A company which can put itself and Fiat at the top of the European car market," Mr Romiti said.

If successful, Fiat would put its Lancia subsidiary alongside Alfa in a new company which in five years would be producing 620,000 cars a year with 37,000 employees. Turnover in the early 1990s is projected at L8,000bn and gross operating profits at L400bn.

The two separate marques would be retained as would their individual management, product development, production and marketing functions. At present, the two companies are producing just over 400,000 vehicles a year with 44,000 employees.

Around L5,000bn would be spent by 1990-91 on updating Alfa's two manufacturing plants and on developing a new range of cars. According to Mr Romiti, a further L3,000bn will be needed to purchase Alfa's assets from IRI-Finmeccanica and to fund its losses before a projected break-even in 1990.

The Fiat executives claimed that, notwithstanding Alfa's continuing losses, which are expected to be L200bn this year, the new company would be able to generate enough profit to self-finance this investment. If not, Fiat would provide the money.

"The economic progress of Fiat allows us to do things now that would have been unthinkable a few years ago," said Mr Romiti in a reference frequently made by Fiat executives to the dark days of the late 1970s when the company's survival was severely in doubt.

Fiat says that it is immediately ready to buy anything between 51 per cent and full ownership of Alfa. It is prepared to carry Alfa's losses even if its initial holding is no greater than a bare majority, but it would hope for 100 per cent ownership by 1990.

With key political and trade union support for the Fiat bid already lined up, it is difficult to see Ford prevailing over what will be seen as a proud national solution designed to raise the Fiat profile in international markets.

US sales of 60,000 Lancia and Alfa vehicles a year by 1990 are a key part of the Fiat plan. Mr Romiti indicated that Turin already has an established distributor lined up in

Continued on Page 26

Background, Page 28

India seeks to reopen Bombay stock exchange after tax raid

BY JOHN ELLIOTT IN NEW DELHI

SENIOR government officials were trying to persuade angry and worried stockbrokers last night to reopen India's major stock exchange in Bombay. It was closed on Thursday and Friday after raids by more than 500 tax inspectors on the offices and homes of 21 brokers.

Code-named Operation Comet, the raids led to the seizure of undeclared cash, jewellery, silver and share certificates worth rupees 28m ($2.2m), which the brokers could not account for. Share certificates totalling another rupees 10m were taken away for further investigation along with all office files and other records.

India has a booming black economy which is under attack by the Government of Mr Rajiv Gandhi. The stockbrokers were the latest target in an 18-month list of raids which has included top industrialists, doctors, diamond dealers, jewellers and even government employees.

The stockbrokers are suspected of not declaring about 20 per cent of their business which has rocketed since the market upturn last year and fallen slightly recently. The raids coincide with talks at the Finance Ministry in Delhi where senior representatives of the International Finance Corporation, part of the World Bank, offered to help to introduce some formal structures and modern rules for India's chaotic and relatively unregulated capital markets which are generally closed to foreign investors.

The raids usually take place soon after dawn when squads of enforcement officers from the Finance Ministry, backed by armed police, arrive without warning at peoples homes and offices, stop their business transactions and detain them, and sometimes their relatives, while they search the premises and confiscate records.

The raids are intended to uncover tax evasion, under-invoicing and other general forms of undeclared business and, in the case of industrialists, overseas transactions which breach India's foreign exchange regulation act.

They have caused major political rows and were angrily dubbed as "Raid Raj" recently by Mr R P. Goenka, a leading industrialist and president of the Federation of Indian Chambers of Commerce and Industry, after the jailing of leaders of major business houses such as Kirloskar and Thapar.

The political authority of Mr Vishwanath Pratap Singh, Finance Minister, and the ability of his enforcement officers and other top civil servants to obstruct the work of the companies involved, has been dramatically illustrated by public apologies and admissions of guilt by multi-nationals such as Bata and

Continued on Page 26

Exports plan, Page 6

Senior Tory quits over call-girl allegation

By Peter Riddell, Political Editor, in London

BRITAIN'S Conservative leaders and members of parliament yesterday moved quickly to close ranks after the resignation of Mr Jeffrey Archer as deputy chairman of the Conservative Party following his admission of "lack of judgement" in offering money to a prostitute whom he claims never to have met.

The departure of Mr Archer, a successful writer and former MP, startled the political world. But his announcement yesterday lunchtime, after a hurried journey to London to consult his lawyer and party colleagues, was regarded as inevitable after the disclosures in yesterday's News of the World newspaper.

The paper gave details of telephone conversations it had recorded involving Mr Archer and of a meeting between an intermediary and an alleged prostitute at London's Victoria railway station on Friday at which the latter was offered an envelope stuffed with £50 ($70) notes to go abroad and avoid a scandal.

This bizarre episode is undoubtedly an embarrassment to the Conservative leadership in view of its public emphasis upon the value of morality and family life.

However, senior ministers believe that the incident can be isolated and should not have wider or continuing political implications.

Mr Archer said yesterday that he had foolishly allowed himself to "fall into what I can only call a trap in which a newspaper, in my view, played a reprehensible part."

He said he had "never, repeat never, met Monica Coghlan, (the alleged prostitute named by the newspaper) nor have I ever had any association of any kind with a prostitute."

But after a series of telephone calls and claims of press interest, Mr Archer said, "in the belief that this woman genuinely wanted to be out of the way of the press and realising that for my part any publicity of this kind would be extremely harmful to me, and for which a libel action would be no adequate remedy, I offered to pay her money so that she could go abroad for a short period, and arranged for this money to be paid over to her."

Mr Archer said that "for that lack of judgement and that alone I have tendered my resignation to the Prime Minister as deputy chairman of the Conservative Party."

Mrs Thatcher was officially said to have received news of the resignation with sadness.

Profile, Page 11

BIG BANG: DAY 1

TODAY is Big Bang day in the City of London. Normally used to describe a theory about the creation of the universe, Big Bang represents a revolution in the way London financial markets operate.

Originally intended by the UK Government as a change in the workings of the London Stock Exchange, Big Bang has expanded into a wholesale restructuring of London's financial heartland.

The spark is being provided by the scrapping, from today, of the system of fixed minimum commissions charged by brokers to their clients.

The changes also include an end to the separation between jobbers – market makers who will no longer exist – and brokers, who are allowed to deal in shares as principals.

Membership of the stock exchange has also been widened to take in a large number of foreign-owned companies.

A new medium of dealing – the Stock Exchange Automated Quotations System (Seaq) – also comes into being today. Thirty-four exchange makers will be able to feed their quotations into Seaq.

Shares will be divided into four main categories depending on their trading volume.

Big investors to put squeeze on securities firms

BY BARRY RILEY IN LONDON

MANY UK FUND managers intend reducing the number of securities firms they deal with after Big Bang and have a clear awareness of the quality of service offered by individual firms, according to an opinion poll conducted for the Financial Times last month.

Investment institutions also appear unprepared in some areas for the new structure of the securities markets although no clear trend on net trading levels or remuneration of research appeared.

The survey also said that many fund managers are critical – even bitter – about the way the financial services revolution has been handled.

Fieldwork was carried out by MIL Research Group in September, and 125 fund managers in a variety of investment institutions were asked to rate the ability of firms in five different activities. The results of the poll are included in the City Revolution survey published with today's Financial Times.

Phillips & Drew, Hoare Govett and Warburg Securities were rated London's best all-round securities firms.

James Capel is, by a wide margin, the best-regarded house for research and agency broking in UK equities.

The poll provides an indication of the relative reputations of London's top securities firms in the final days of the old-style market, before the radical Big Bang restructuring which takes place today.

Fund managers were asked to be forward-looking and estimate how leading firms would perform after Big Bang in activities such as market making in equities and gilt-edged government securities.

Twelve established London firms were selected for the survey, together with one US investment bank – Goldman Sachs – to provide an indication of the initial power of the American competition. In the event Goldman earned relatively low marks overall, but scored highly in international equities and beat several of the London firms in gilt-edged market making.

In equity market making the new groups which have bought the two biggest jobbing firms were given the best marks (respondents were asked to vote on a scale of 1 to 10). Warburg, which owns Akroyd & Smithers, came first, and Barclays de Zoete Wedd, which has absorbed Wedd Durlacher, was close behind.

In gilt-edged market making these firms were only ranked in third and fourth positions, Greenwell Montagu was judged to be first and Phillips & Drew second.

In equities, James Capel and Cazenove lead the agency broking table. Both these firms are unusual in that they are declining to act as major market makers

LONDON SECURITIES FIRMS

Overall rankings	Average score out of 10
James Capel	7.6*
Phillips & Drew	6.9
Hoare Govett	6.8
Warburg Securities	6.8
Barclays de Zoete Wedd	6.6
Scrimgeour Vickers	6.5
Kleinwort Grieveson	6.3
Greenwell Montagu	5.9
Hill Samuel/ Wood Mackenzie	5.9
Cazenove	5.8*
County Securities	5.8
Goldman Sachs	5.7
Messel	5.7

** These firms were not rated in all categories.*

National Semiconductor — HONDA — ALLSTAR — MAN — VW — intel — SWINDON — Burmah Castrol — M4

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The local authority has a range of sites available.

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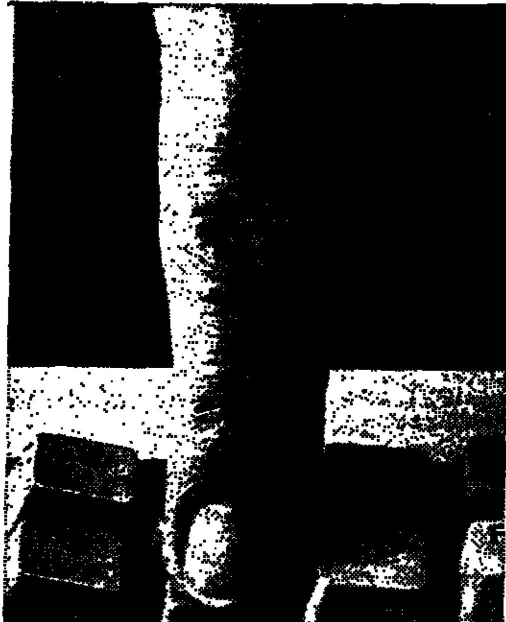

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PLUG INTO THE INFORMATION REVOLUTION

British prepare to leave Damascus

BY TONY WALKER IN DAMASCUS

BRITISH embassy personnel, staff of the British Council and contract teachers, are packing their bags to leave Damascus. About 50 British representatives including families have been given until Friday to leave Syria.

Syria has not yet agreed to a British proposal for the establishment of "interest sections" in the respective capitals to look after such tasks as issuing visas.

Embassy officials say they are completing preparations to leave without harassment from the authorities. There have been no demonstrations in Damascus against Britain.

The Syrian authorities have given assurances that the 250 or so Britons living in Syria, including businessmen, will not be affected by London's decision to sever relations.

Mr Farouk al Shara, Syria's Foreign Minister, told a press conference at the weekend that all foreigners living in Syria, especially Britons, would receive care and attention from the Syrian Government.

Mr al-Shara attacked the British Government and Mrs Margaret Thatcher in particular for the closure of the Syrian mission in London. His remarks were seen as being generally more conciliatory than the harsh tone of editorials in Syria's official press and on state radio.

"...Mrs Thatcher is very well known for being friendly to Israel," Mr al-Shara said. She was chairman of the Anglo-Israeli Association, he said.

The American and Canadian ambassadors left Damascus yesterday. Both were recalled by their respective governments.

Arab reaction to Britain's break in relations with Syria has been muted reflecting divisions in the region.

Only Libya has offered strong backing for Syria, charging that Britain is exhibiting a "malicious, racist attitude" towards Arabs.

Western officials in Damascus say that while the case of Nezar Hindawi, the convicted terrorist, has been an embarrassment for Syria, it is unlikely to have serious internal repercussions for the regime of President Hafez al-Assad.

These officials noted that senior Syrians, including the president himself, have given a series of interviews to the western press in recent weeks denying Syria's involvement in the planned bomb attack

"Syria has no connection with terror," President Assad told editors from Time magazine in Damascus earlier this month.

"We challenge (western) intelligence services to prove that Syria was behind a single terrorist operation anywhere."

"No terrorist acts are carried out from Syria, by Syrians or others. We do advocate struggle against Israel, by all means, to expel the Israelis from our occupied land. But our struggle is here, on Arab land, not in Europe or the US."

Syrian spokesmen have issued similar denials in the face of other charges that Damascus is behind acts of terror in Europe.

Mr al-Shara told Le Monde recently that sections of France's media were trying to cause problems between Paris and Damascus by alleging that Syria was behind the recent wave of bombings on the streets of the French capital.

Syria itself has reacted to the diplomatic pressure it is under following the Hindawi conviction by calling on fellow Arab states to apply trade sanctions against Britain. With the exception of Libya, however, it is thought unlikely that other Arab countries will heed the call.

Damascus radio at the weekend described Britain's action as "a provocative, hostile step in the context of a plan, prepared with the US, to escalate tension in the Middle East and likely to launch military aggression against Syria."

The old part of Damascus.

Shadow over UK contracts in Syria

By Tony Walker

BRITAIN'S decision to sever relations with Syria has cast a shadow over attempts by UK companies to secure lucrative construction contracts in Syria.

A number of British companies are bidding for large sewage treatment projects in population centres such as Damascus, Aleppo, Homs and Hama.

Hawker Siddeley Water Engineering had emerged as the low bidder for contracts to supply mechanical and electrical equipment for the Homs and Hama waste water schemes.

UK companies are also involved in bidding for part of a $211.6m (£150m) project in Aleppo, Syria's second-largest city, to combat urban and industrial pollution and improve health conditions. The World Bank is supplying a $70m loan for the Aleppo project.

A British company is bidding for consultancy work on the Damascus water project. Another UK engineering consultancy, Kennedy and Donkin, is involved in bidding on a scheme to extend the power station at Banias on the coast.

A British official said the crisis in relations between London and Damascus would not help UK companies seeking contracts in Syria, but in the final analysis price would play a large part in Syrian decisions.

"I still think that if the price is right, especially in the present situation where they have this acute shortage of foreign currency, that will prove decisive," said the UK official.

There are unconfirmed reports that a British company which had expected to sign a £2m consultancy contract this week has been told that the arrangement was being abandoned.

Technician who disclosed N-secrets 'in Israeli jail'

BY ANDREW WHITLEY IN TEL AVIV

AN ISRAELI technician who disclosed secrets about the country's nuclear weapons capacity, and subsequently disappeared from Britain, is being held in a top-secret prison in Israel.

According to well-informed Israeli security sources, Mr Mordechai Vanunu, the disaffected nuclear technician, was secretly brought before a judge in Jerusalem last Monday and remanded in custody for 15 days.

An Anglican priest currently searching in Israel for Mr Vanunu, who was last reportedly seen on September 30 in London, said yesterday he believed the missing man had been brought back to Israel.

The Rev John McKnight, an Australian who converted the Israeli, a Moroccan-born Jew, to Christianity in Sydney last June, told a Press conference in Jerusalem he did not believe Mr Vanunu would have left England of his own free will.

The Israeli authorities have gone to considerable lengths to hush up the case, banning the publication in Israel of all news on either the alleged kidnapping of the technician either by the Mossad, the external intelligence service, or his revelations about Israel's nuclear weapons.

It was only as a result of an apparent clerical error in the Jerusalem police headquarters that Mr Vanunu's name was included last week on a public list of those who had been remanded in custody the previous day. All other documents on the case are thought to be in the personal safe of Judge Aharon Simcha, the magistrate entrusted with the Vanunu case.

Security sources say the 31-year-old technician is being held at the Gadera camp near Rehovot in central Israel, a facility normally used by the security services to detain top Palestinian prisoners. By law, his remand will have to be renewed within a week.

A report in last week's issue of Newsweek, the US magazine, said Mr Vanunu had been "arrested" by the Mossad aboard a yacht in international waters, after being lured away from Britain. This deliberately leaked report conveniently blurs the possibility that the Israeli secret service may have kidnapped him in Britain or on other foreign soil.

If confirmed, these allegations would be embarrassing for Israel, coinciding as they do with Britain's break in diplomatic relations with Syria for illegal acts committed on British soil. The Shamir Government has hailed the rupture with Syria as a courageous step against international terrorism.

While there is no confirmation of where and how Mr Vanunu was detained, Israeli sources say he arrived in Israel aboard a navy vessel.

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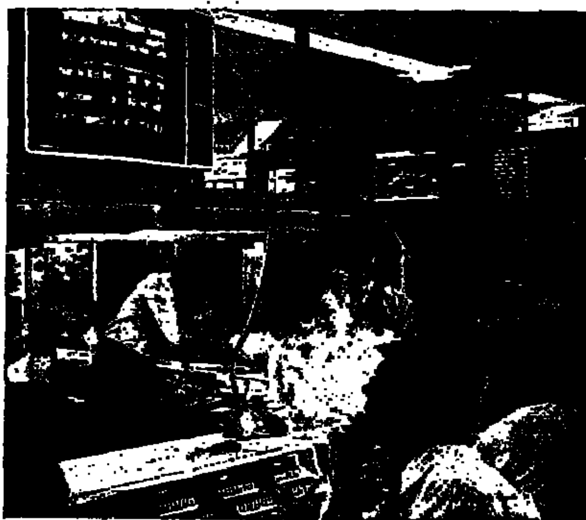

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Fighting continues in Lebanon

By Our Middle East Staff

HEAVY fighting continued yesterday in south Lebanon between the Shi'ite Amal militia and guerillas of the Palestine Liberation Organisation.

The Palestinians are seeking to break the Shi'ite stranglehold on the refugee camps of Ain al-Hilweh and Miyeh Miyeh to the east of Sidon.

Amal has been forced to give ground in what is said to be the largest Palestinian offensive since the PLO was driven out of the area by invading Israeli troops in June 1982.

Mr Yasser Arafat, the PLO chairman, has for several months been infiltrating men and supplies into the area in an effort both to protect Palestinian civilians and to re-establish a military base.

Amal is meanwhile maintaining its pressure on the Palestinian camp at Rashidiyeh, further to the south on the outskirts of Tyre.

UN officials in Beirut expressed their concern yesterday for the thousands of women and children trapped in Rashidiyeh which is ringed by Amal positions.

Kuwait confirms attack on aircraft

A DEFENCE official confirmed yesterday Kuwait fired two missiles on Saturday night at an unidentified flying object, described by a newspaper earlier as an "enmy" aircraft believed to have been shot down, Reuter reports from Kuwait.

Major General Abdulla Farraj al-Ghanim, the army chief of staff, said it had not been possible to identify the nature of the target.

But he told the Kuwait news agency KUNA it was headed for Shuiaba, an industrial area adjoining Ahmadi, the hub of the northern Gulf emirate's oil export operations 20 miles south of the capital.

He said the target vanished from radar screens after the second anti-aicraft missile was fired. It was then four miles away.

FINANCIAL TIMES

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Japanese 'flouting chip trade accord'

BY LOUISE KEHOE IN SAN FRANCISCO

JAPANESE chip-makers are deliberately flouting the recently-signed US-Japanese trade agreement by dumping memory chips in Europe, and Asia, say their US competitors.

US industry reports confirm charges by European semiconductor manufacturers of Japanese dumping. The European industry intends filing an anti-dumping suit with the EEC against Japanese manufacturers.

Under terms of the US-Japanese trade agreement, the Japanese Ministry of International Trade and Industry is supposed to monitor Japanese chip export prices to ensure that products are not sold below "fair value" in third countries.

The US Commerce Department sets minimum "fair market value" prices for Japanese memory chips.

While the system is apparently working well in the US, where memory chip prices have risen dramatically over the past six weeks, dumping has accelerated in Europe, resulting in significant price differences between the US and other countries, according to analysts at Dataquest, a major US market research firm that monitors chip prices worldwide.

PRICES FOR 256K DRAM ($)

	Sept. 29	Oct. 13	Oct. 23
Europe	1.78	2.10	2.10-2.20
US	2.50	2.75	2.75
Japan	1.85	1.95	2.00-2.10

According to the industry analysts, European prices of commodity chips such as the 256K DRAM have been consistently lower than those in the US for some time. Although prices in Europe have risen since the signing of the US-Japanese trade agreement, they remain significantly lower than in the US.

The European "grey market" for Japanese memory chips has expanded since the trade agreement was signed, the industry analysts say. Third parties are offering Japanese chips to potential European buyers at prices well below the "fair market values" set by the US Commerce Department.

European buyers have also been encouraged to make their chip purchases in Japan, where price controls do not apply, Dataquest reports.

US chip-makers have urged the Commerce Department to act on their complaints.

Tokyo's tariffs on wine and spirits under attack

BY QUENTIN PEEL IN BRUSSELS AND JAMES BUXTON IN EDINBURGH

JAPAN'S HIGH tariffs on imported wines and spirits will come under attack this week from both the foreign ministers of the European Economic Community and European and North American producers.

The EEC is to make a formal complaint to the General Agreement on Tariffs and Trade (GATT), while a delegation of European and North American wine and spirit producers is going to Tokyo this week to lobby against what they regard as Japan's protectionist taxes on imported alcohol beverages.

The EEC move to set up an investigation panel under Article 23 of the GATT will be proposed to the foreign ministers today by Mr Willy de Clercq, the European Commissioner for Trade.

It follows frustration in the community over the apparent failure of talks in recent months to resolve what the European Commission says amounts to an unfair trade practice.

The aim of the producers' delegation, in which the Scotch Whisky Association will play a leading role, is to reinforce efforts by the EEC Commission and by the British, Canadian and US governments to persuade Japan to change its policies.

The Scotch Whisky Association claims that Scotch whisky is denied access to 80 per cent of the Japanese market because it is taxed twice as heavily as Japanese first grade whisky, which it is automatically classified as, and seven times as heavily as Japanese second grade.

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OVERSEAS NEWS

Moscow claims US pulling back on summit deals

BY PATRICK COCKBURN IN MOSCOW AND STEWART FLEMING IN WASHINGTON

THE SOVIET UNION has attacked what is describes as attempts by Washington to pull back from agreements reached between Mr Mikhail Gorbachev, the Soviet leader, and President Ronald Reagan at the summit in Reykjavik.

Mr Alexander Bessmertnykh, the Deputy Foreign Minister, affirmed on Saturday that President Reagan had agreed to the elimination of all nuclear weapons, *not just ballistic* missiles, by 1996.

He said Mr Gorbachev had insisted and President Reagan had finally agreed that all nuclear weapons "including bombs, battlefield weapons, cruise missiles, submarine-carried and medium-range weapons" be abolished.

Both Mr Bessmertnykh's *speech and Mr Gorbachev's* television speech on Wednesday show Soviet alarm that a false impression is being created of what they agreed to in Iceland. Mr Victor Karpov, the Soviet chief negotiator at Geneva, also said at Saturday's news conference that there was no indication from the US negotiating team in Geneva "that what we agreed in Reykjavik has had any effect on their position."

The Soviet statement will fuel the controversy in Washington over what precisely President Reagan said to Mr Gorbachev and whether or not the President and Mr George Shultz, the US Secretary of *State, allowed themselves to be* drawn into making proposals which were ill-prepared.

The charges that Mr Reagan put forward, at the summit, ill-advised proposals for the abolition of all nuclear weapons were made shortly after the President's return, notably by Senator Sam Nunn, a democrat who is a recognised authority *on defence issues.*

While not denying that the two leaders discussed the abolition of all nuclear weapons the White House has insisted that the US made no formal offer along these lines.

ETA murder sharpens nationalist divide

By Tom Burns in Madrid

A WEEKEND of violence and of rival political rallies in the Basque country has highlighted the growing divide between moderate nationalists and extremists who back the separatist platform of the ETA guerrilla organisation.

The assassination by ETA on Saturday of the military governor of San Sebastian spurred the moderate leadership of the Partido Nacionalisto Vasco (PNV), which runs the Basque autonomous government, into making its *most critical statements to* date of ETA and its tactics.

General Rafael Garrido was killed together with his wife and their teenage son by a 5 lb bomb which was attached to his car by a motor-cyclist in the centre of San Sebastian. Twelve bystanders were injured, five of them seriously, by the blast.

The *bomb attack*, which brought the number of ETA victims this year to 34, coincided with an official reception hosted by the Basque Government to commemorate seven years of home rule for the area. It came just hours before competing rallies organised by the Government and the ruling PNV and by the extremist Herri Batasuna (People's Unity) Party which acts as ETA's political front.

The growing confrontation between the PNV and ETA and its political supportera took a fresh turn 12 days ago when the separatists kidnapped for ransom Mr Lucio Aguinagalde, a veteran PNV member. A 69-year-old businessman, *he had served in* the PNV militia during the Spanish civil war and was later imprisoned by General Franco.

On Saturday night the Basque Government and the PNV led an estimated 20,000 in a march staged in Vitoria, the seat of the autonomous executive, to protest against *the kidnap. The rally's slogan* was "Freedom for Lucio, imprisoned by Franco and kidnapped by ETA."

Mr Herri Batasuna organised a rally on the same evening in Bilbao which also drew *some* 20,000. The purpose of the march was to call for negotiations between ETA and the central government

SPD offers tax cuts to boost poll hopes

BY DAVID MARSH IN OFFENBURG

IN AN attempt to stem flagging momentum in the country's general election campaign, West Germany's *opposition* Social Democratic Party (SPD) promised at the weekend to cut taxes and provide more social justice if it wins the *January poll.*

In a speech of polished thoughtfulness before party delegates in Offenburg on the fringes of *the Black Forest*, Mr Johannes Rau, the party's candidate for the chancellorship, said an SPD Government would cancel West Germany's agreement with the US over the Strategic Defence Initiative (SDI) research programme.

Mr Rau, launching a moral appeal for support from a broad spectrum of the electorate for his policies of disarmament and the phasing out of nuclear *power stations, however,* remains firmly the underdog in the contest with Mr Helmut Kohl, the Chancellor. Mr Kohl has gained considerably in confidence in recent weeks.

Mr Rau refused to change an iota of his strategy of ruling out an alliance with the Greens, the anti-nuclear ecology party. He admitted the party's poor showing in the Bavarian state elections a fortnight ago had *been a considerable setback.*

But he declared the SPD would stick "through thick and thin" to the trade union movement in spite of the "mismanagement and even shamelessness" of the scandal over the trades' union property group Neue Heimat.

The Rau is the son of a preacher who speaks not in anger but in sorrow about political opponents. He vigorously berated as "evil" Mr Kohl's *indirect compa:rison, in an* interview with the US news magazine Newsweek, of Mr Mikhail Gorbachev, the Soviet leader, and Josef Goebbels, the war-time Nazi propagandist.

In a bid to make tax policy a central feature of the election campaign, Mr Rau also unveiled a programme to make the majority of German tax-payers better off under the SPD than under the tax reduction plans already prepared by the centre-right coalition Government.

N-power overshadows Paris-Bonn summit

BY DAVID MARSH

THE COOLING towers of *Cattenom nuclear power station* will loom as a symbolic sentinel over the "cultural summit" between the French and German Governments which starts in Frankfurt today.

The latest six monthly talks will emphasise the growing cultural gap between the two countries which could risk eventually weakening the post-War *Bonn-Paris axis and the* collaboration in industry, technology and defence built around it.

The will for political co-operation between the two sides is as strong as ever, but nowhere is the fissure in basic understanding more evident than over the vexed question of nuclear energy.

The fault line between Bonn and Paris runs directly through Cattenom in eastern France, where the first 1,300m MW section of Electricité de France's new nuclear power station started to go on stream last Friday.

The Chernobyl nuclear accident in April has had wide-ranging repercussions on *German life, but* in France, the response has been of blank indifference, mixed with resignation.

The German Government under Mr Walter Wallmann, its new Environment Minister, who as *former* Mayor of Frankfurt will play a special role in the two day summit, has been anxiously trying to convey to *the population* that "*it couldn't* happen here."

But Germans feel that it could, and fear the results of even a small nuclear accident could have devastating consequences not only for the physical health but also for the mental well-being of the German population.

Explaining the lack of con*cern of most* French people on the subject, Mr Pierre Strobl, the French civil servant who is deputy director general of the Nuclear Energy Agency for the Organisation of Economic Co-operation and Development in Paris says "The French have a tendency more than others to be confident in the authorities. They have more interest in good wine and sex than nuclear energy."

Mitterrand—honoured

Mr Wallmann has been trying in recent months, without getting much more than a polite response in Paris, to explain German worries about Cattenom to the French administration. "The French think we're *hysterical*," *a Wallmann* aide in Bonn admits.

Mr Riesenhuber, the German Technology Minister, has already made clear Germany's refusal to put up any more public funds for another fast breeder reactor project between the two countries.

Mr Marcel Boiteux, chairman of EDF, says one of the rea*sons for the general nuclear* consensus in France is because "the French state is considered by the French like a mother who cannot do harm to her children."

President Francois Mitterrand, as part of the summit ceremony, will become the first French president to receive the honorary citizenship of a *German city.*

He is also remembered as the former French opposition leader who signed a petition against the "all nuclear" energy policy of the Giscard government. Nonetheless since he moved into the Elysee five years ago, Mr Mitterrand has presided over an effective doubling of the atomic power *programme, from 37 per cent* of electricity production in 1981 to 70 per cent now.

"The French Socialists give us our biggest problems," says another SPD deputy in the federal parliament in Bonn. His party is campaigning in the January general election here for a gradual phasing out of German nuclear power plants.

The two day meeting in Frankfurt will try to build bridges across the Rhine through stepped up teaching of the French and German languages in the two countries to dampen the steady expansion of English (or American) as the main international means of communication. More exchanges of *students are to be agreed.*

Whether a future Franco-German curriculum will include courses on the effects of radiation on wild berries and venison, or on the consequences for energy independence of nuclear reprocessing, however, remains very much an open question.

Bank of Italy calls for pay deal moderation

BY JOHN WYLES IN ROME

THE governor of the Bank of Italy, Dr Carlo Azeglio Ciampi, has called for moderate pay settlements in the current round of industrial negotiations but also warned employers against pushing their profit margins too high.

In a keynote report on the Italian economy delivered at the weekend to the annual meeting of the Forex Club, the governor warned against excessive satisfaction with current trends.

Those who a short time ago were warning of a profound crisis in the Italian economy have been proved wrong, he said. The inflation differential against the other principal EEC economies had been cut by two percentage points, the trade balance has fallen from L17,500bn to L4,200bn, and in two years the government deficit should be reduced to 10 per cent of GDP.

But the price trend was still worrying and employers and unions must behave coherently. Both retail and wholesale prices have been rising faster than unit costs, said Dr Ciampi, and "the pursuit of a policy for industrial prices aimed at over strengthening profit margins may not be in line with the country's general interests," he warned.

● Alan Friedman in Milan writes: Italy's Minister of Justice has called for extraordinary legislation designed to prevent the freeing of dozens of alleged Mafia killers and drug traffickers who are among the 475 defendants in the long-running Palermo "maxi-trial" against the Mafia.

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After October 27th, as the echoes fade, the U.K. financial community will find itself adjusting to its new circumstances.

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OVERSEAS NEWS

London Big Bang echoes on Dublin's empty floor

WHILE London is alive today with the sound of the much-heralded Big Bang, a hush will prevail over the small circle of brokers' wooden desks and the blackboard of chalked-up prices on the floor of Dublin's stock exchange.

Deregulation, albeit on a limited scale, is coming to Dublin, which operates as an affiliate of the London exchange. But not until tomorrow. Today happens by coincidence to be a Bank Holiday.

The silence on the decidedly old-fashioned exchange floor in Anglesea Street, not far from the River Liffey, is deceptive, however. It is some years since the bulk of business in the Irish market has been conducted there.

More to the point, many Irish brokers will be in their offices today glued to their screens watching how London copes, Bank Holiday or not.

There is in Dublin much of the uncertainty about what the new era will bring that there is in London. For a start, the 12-person Stock Exchange Council had not agreed by the end of last week new commission rates which Mr John Bruton, the Finance Minister, asked it to agree under his proposals for local changes to match the Big Bang.

Although Dublin is an affiliate of the London Stock Exchange, local conditions, chiefly the relative smallness of the Irish market and the concentration of most business in the hands of a few brokers and institutions, mean there can be differences in operation. The deregulation moves framed by Mr Bruton do not encompass all those taking effect across the water.

One London reform which is being embraced is the move to allow 100 per cent ownership

Hugh Carnegy on uncertainty about deregulation at an LSE affiliate

of broking firms by non-members of the stock exchange. The first move by an Irish institution in this respect came last week when Allied Irish Banks, one of the two big Irish clearing banks and a major player in the Dublin markets, announced it had formed a wholly-owned subsidiary, Allied Irish Securities, which was applying for stock-exchange membership.

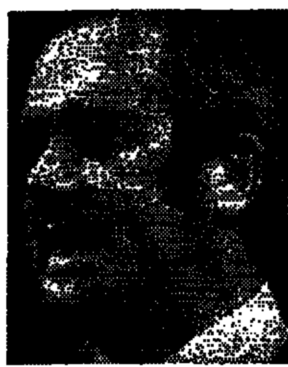
Although AIB said it envisaged that most of AIS activity would be in London initially, the move is likely to have sent a shiver down the spines of many of the 16 registered brokers in Dublin who will fear the built-in advantages for AIS from its powerful parent, including its big branch network.

The main difference between the London Big Bang and its echo in Dublin is in the market for gilts, or Government securities. Unlike London, where gilts dealing has been thrown open to a free-for-all between a large number of "market-making" brokers, the Irish gilts market will remain largely unchanged. The Department of Finance and the central bank will continue to act as the sole market-maker with brokers continuing to act for clients as agents.

A study is to be made of the merits of moving towards a private market-making system, in which the two big clearers, AIB and the Bank of Ireland, as two of the biggest players in the Irish gilts market, are likely to be interested.

But for the time being, the present system will continue. Turnover in Irish gilts is around I£20bn (£19.1bn) a year, compared with less than I£bn in equities. (Growth in gilts has been fuelled in recent years by the Irish Government's heavy borrowing requirements.)

Well over half of gilts is controlled by seven institutions—and most of that by Irish Life Building Society, AIB and the Bank of Ireland—and most trading is through four brokers. In these circumstances, it was


Bruton—smaller changes

generally agreed that if a private market-making system were introduced, smaller agency brokers would be at such a disadvantage they would almost certainly be squeezed out of existence.

Mr Bruton proposed that fixed commissions in gilts should continue, but at levels well below existing levels and it is these that are still being worked out.

In the much smaller equities market, the level of concentration is also high, with seven big corporations — including names such as Jefferson Smurfit, Cement Roadstone and Waterford — accounting for most of the market and a few institutions playing a dominant role. There are also no market-makers in Dublin, with London-based jobbers performing the function mainly in the top Irish corporates.

Although Mr Bruton said he would allow dual capacity in equities, no Dublin broker at present is set to take on such a role-

Norway ready to cut $60bn N. Sea gas plan

BY MAX WILKINSON, RESOURCES EDITOR

THE Norwegian Government is preparing for a major scale-down of its $60bn (£42bn) North Sea gas development plans if the French Government carries through with its threat to withdraw from the project.

This follows the French authorities' refusal 10 days ago to ratify an agreement by which Gaz de France would take 40 per cent of the gas from the development of the Sleipner and Troll fields. The development would be the most ambitious of its kind in the world.

The French refusal to sign the agreement was seen at first as a negotiating ploy.

However, after a series of contacts between officials, Norwegian officials believe that there is now a serious possibility that France will withdraw altogether. They have therefore asked the oil companies involved to draw up an alternative scheme for the development of the fields.

Their plan would be to abandon the development of the Sleipner field in the central North Sea for the time being and to concentrate on Troll in deeper, more hostile waters to the north.

Clearly there is an element of bluff and brinkmanship on both sides but a much-reduced scheme now seems quite possible.

After talks between officials in Norway this weekend, Mr Arne Oeien, the Norwegian Oil Minister, will be travelling to Paris, probably next week, to see if he can persuade France to come back into the scheme as the major partner in a consortium of Continental buyers.

The possibility that France might withdraw is seen by some observers as a chance for Britain to press the case for routing the gas pipeline for the project through mainland Britain rather than down the centre of the North Sea to Zeebrugge in Belgium as at present planned.

This would probably be much cheaper than the $1.7bn which the under-sea pipe is expected to cost and could use spare capacity in existing pipelines from St Fergus near Peterhead up to the Frigg field which is quite close to Troll.

British Gas has long been anxious to sign a contract for Norwegian gas to replace the diminishing supplies from the Norwegian sector

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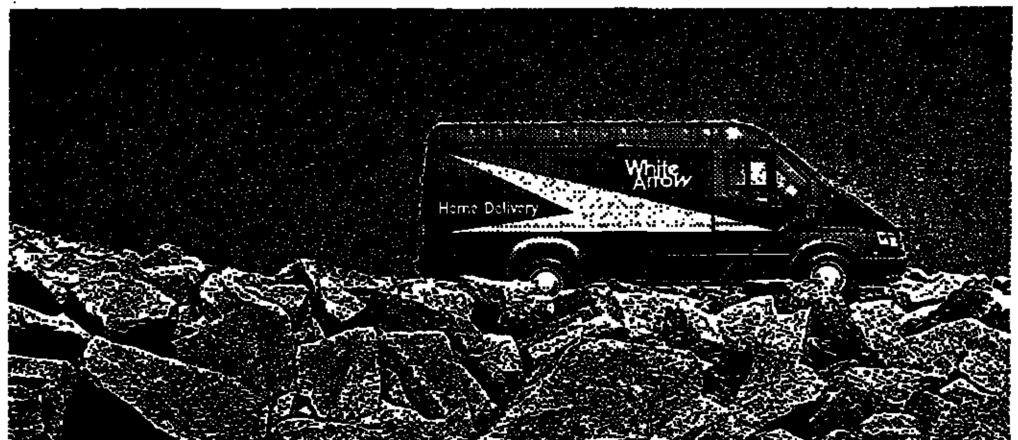

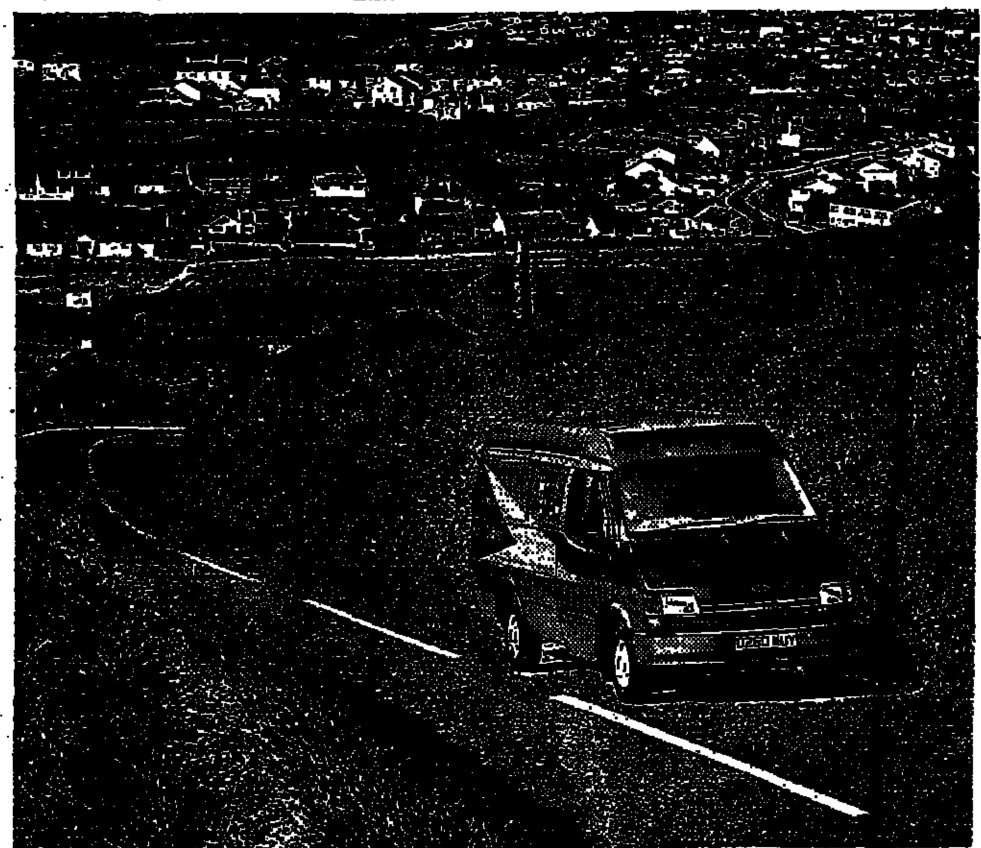

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OVERSEAS NEWS

India launches fresh plan to boost exports

BY JOHN ELLIOTT IN NEW DELHI

A MAJOR plan to boost export growth in engineering and other industries was launched at the weekend by the India Government in an attempt to reduce the country's trade deficit which increased by 66 per cent last year.

The package of inventives includes provision of raw materials at international prices, well below India's domestic prices, and a significant relaxation of the country's restrictions on the use of foreign brand names in India.

The aim is to reduce domestic costs and improve production technology and export marketing so that exports grow by 14 to 15 per cent this year, compared with 4 to 5 per cent in recent years.

High costs of Indian raw materials, including steel which is 50 per cent above world prices, have held back export growth in engineering and other manufacturing areas.

Raw materials are now to be supplied for export production at international price levels with the cost of this subsidy being born by the Government or covered by a duty on domestic production. This system is already operating for steel, steel alloys and aluminium.

The brand name concession specifically affects the garments industry but might be extended later. Now names such as Van Heusen and Monsoon may appear in India, providing at least 75 per cent of the production is exported, only Indian fabrics are used, and no royalty payments are sent out of the country.

Exporters are also for the first time to be allowed to spend 5 to 10 per cent of their foreign exchange earnings on marketing abroad.

Excise duties and domestic taxes are to be cancelled on both the materials and consumables used for exported goods, enlarging an existing duty drawback scheme.

Import duties are to be reduced or cancelled on capital goods not avilable in India and needed for products with major export potential in one of 14 "thrust areas."

Large companies are to be allowed to produce goods for export in some industries reserved for small firms, provided 60 per cent of the output will go abroad.

● Sikh extremists killed eight people when they fired submachine guns indiscriminately into a crowded market in Chandigarh in the Punjab yesterday, Reuter reports.

Police sources said yesterday the attack appeared to be in revenge for the police killing of militants in the same area earlier this month.

Costa Rica asks for 'cut-price' rescheduling

By Peter Montagnon, Euromarkets Correspondent

COSTA RICA has embarrassed its commercial bank creditors by asking for a 25-year rescheduling of $1.4bn (£1bn) in foreign debt below market rates of interest.

Its request came only three weeks after Mr Ulrich Merten, a senior Bank of America executive said in a speech to a Miami bankers conference that banks should concede interest relief to debtors in Latin America.

Mr Mertens chairs the creditor banks' negotiating committee with Costa Rica, though he was away on holiday when the country made its request. Other banks on the committee have been seeking to distance themselves from his remarks.

Costa Rica's proposal included a suggestion that it should never pay more than 1.5 per cent of its gross domestic product in debt service including interest and that interest charges should be fixed at 4 per cent until 1988 rising in stages to 6 per cent in 1993.

The proposal was made late last week by Mr Fernando Naranjo, Finance Minister, to a meeting of creditors in New York. The banks rejected the request amid worries that it could prompt similar requests for debt relief from other, larger Latin debtors.

Mr Naranjo told them Costa Rica wanted a negotiated solution to its debt problem that took account of the country's ability to pay.

Victor Mallet reports on Mozambique's transition from colonialism to poverty

Maputo struggles against new enemies

LIFE IS hard for Mozambicans, and it has not been made easier by the unexplained airliner crash which killed President Samora Machel and other senior officials of the Marxist Government eight days ago in South Africa.

The palm trees overlooking the Indian Ocean in the capital, Maputo, formerly Lourenco Marques, sway in the breeze just as they did before the revolution, when Mozambique was a Portuguese colony and a playground for white Rhodesians and South African holidaymakers.

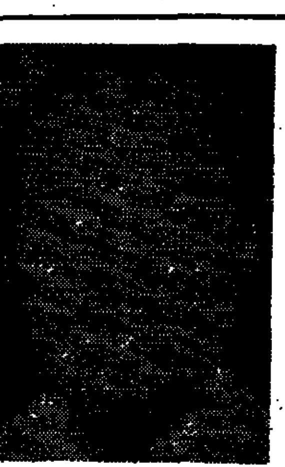
But the bitter ideological and racial conflicts of Southern Africa have taken their toll, making the words "liberation" and "independence" sound increasingly hollow in Mozambique.

Many of the country's 14m people go hungry, and thousands of peasants caught up in the war between the government and its right-wing rebel opponents have fled to neighbouring Zimbabwe, Zambia, Malawi, and South Africa, sometimes braving the depredations of wild animals and the dangers of electric border fencing on the way.

Mozambique has been at war almost without a break for the past 22 years. Mr Machel's front for the liberation of Mozambique, Frelimo, fought Portuguese colonialists until independence in 1975, whereupon rebels of the Mozambique National Resistance (MNR), an anti-Communist movement created by the white Government in Rhodesia and then supported by South Africa, started fighting Frelimo.

As they observe 60 days of mourning and listen to Radio Mozambique's small collection of solemn classical music instead of the unsual pop, the inhabitants of the shanties in Maputo's Reed City — named after the materials used for building — have much to worry them.

Basic foods, such as meat and maize, are rationed; and often supplies are insufficient even for the rations. They pay of a domestic worker earning a monthly salary of 2,500 meticais, worth US$63 at the official rate but less than US$2 on the black market, does not go a long way. A couple of lbs (1 kg) of South African applies sell for 1,050 meticais in the main market, while a handful of fish costs 1,600 meticais.



THOUSANDS of Mozambicans have been paying their last respects to President Samora Machel, who died suddenly in an air crash, as delegations from around the world begin to arrive for the state funeral on Tuesday.

Mr Joaquim Chissano, Foreign Minister (left) and a member of the Marxist government and a contender for the presidency, has, meanwhile, been quoted the official Mozambican news agency as saying that South Africa was ultimately responsible for Mr Machel's death.

The war has played havoc with the economy, and Western countries, while admiring progress in education and health care, believe the government compounded its problems in the past by pursuing unrealistic agricultural and industrial policies which promoted state intervention and communal farms rather than private enterprise. Goods for export and internal distribution, which include coal, cashew nuts, and tea, often gather dust in dumps, warehouses, or fields because of the impossibility of transporting goods through the war zones.

Communication in sparsely populated Mozambique has not been easy at the best of times. General elections for the one-party state, now suspended because of Mr Machel's death, were scheduled to take three months because of the difficulties involved. "Election brigades" to organise the polling travel on foot to remote areas, where people are likely to have run out of radio batteries.

"People in the bush don't get batteries, so they can't get Radio Mozambique and don't know what's going on," says one diplomat.

The uneasy relationship with South Africa is one of the headaches awaiting Mozambique's as yet unchosen new President. While the world clamours for economic sanctions against Pretoria, Mozambique relies for much of its foreign exchange on South African use of Maputo port and the remittances of Mozambican mine workers, although they have now been ordered out of South Africa.

South Africa's trade mission is one of the smartest buildings in a capital city where windowpanes are in short supply

Pretoria retaliates against International Red Cross

BY JIM JONES IN JOHANNESBURG AND WILLIAM DULLFORCE IN GENEVA

THE South African Government has reacted to its expulsion from the International Committee of the Red Cross conference in Geneva on Saturday by asking the ICRC to leave the country as soon as possible.

Mr Pik Botha, South Africa's Foreign Minister, says his country's suspension from the ICRC is illegal and that the right to operate in South Africa will be suspended until South Africa is in a position to participate in ICRC conferences.

The suspension does not affect the South African Red Cross Society, which is a non-government organisation and which remains an ICRC member.

Pretoria argues that it is entitled to participate in ICRC conferences as South Africa was a signatory of the 1949 Geneva Convention. At present the ICRC is represented by 15 Swiss nationals in Pretoria and Windhoek.

Mr Botha also said that his Government would consult with the "transitional government" in Namibia on the ICRC's continued operation in the disputed territory. In recent years the ICRC has arranged prisoner-of-war exchanges between South Africa, Angola and Cuba.

Exclusion from an IRC assembly of a signatory government to the Geneva conventions is unprecedented. Mr Alexandre Hay, the ICRC president, argued in vain that the vote was illegal and contrary to the statutes of the International Red Cross.

The motion submitted by Kenya to "suspend" the South African Government delegation was passed by 159 votes against 25 with eight abstentions after the Africans had successfully resisted a call for a secret ballot.

The Africans and their supporters later defeated an attempt led by Australia and backed by the US, Britain and France to have the Red Cross conference adjourned indefinitely. Delegates voted 178 to 52 in favour of resuming their interrupted meeting this morning.

EEC under fresh pressure to strengthen sanctions

BY QUENTIN PEEL IN BRUSSELS

A NEW effort is expected today to persuade EEC Foreign Ministers to strengthen the package of economic sanctions they imposed a month ago on South Africa—in particular by including a ban on coal imports.

Both Denmark and the Netherlands have promised to raise the issue at the Council of Ministers in Luxembourg, but diplomats hold out little prospect of any shift in the position of West Germany. West Germany was the member state which blocked any action on coal before.

Nor have the 12 yet succeeded in resolving their differences over how to implement the modest measures they did agree in September banning the import of gold coins, and seeking to stop any new direct investment by EEC companies in South Africa.

The Ministers will be told today that their officials have at least manager to define exactly what they mean by gold coins and direct investment.

However there is still virtual deadlock on whether the bans should be enacted under EEC legislation or national legislation.

The definition of gold coins means the ban will affect all those minted since 1961, in order not to affect too many coins which may already be in private collections, officials say.

The ban on direct investment will not cover retained profits by subaidiaries in South Africa, nor will it affect portfolio investment.

The categories to be banned will be the establishment or extension of branches or new undertakings by EEC companies in South Africa; the acquisition of existing undertakings; new or increased equity participation in South African businesses; and long-term loans "for the purpose of establishing lasting economic links."

What the experts have not yet been able to resolves is the dispute over the legal basis of the sanctions. Belgium, the Netherlands, Denmark and West Germany are arguing for a Community basis.

This, however, is fiercely resisted by Britain and France, concerned at the principle of allowing Brussels to supervise such political sanctions.

Six die in goldmine disaster in S. Africa

BY JIM JONES IN JOHANNESBURG

SIX BLACK miners died and at least four were seriously injured when a bucket lift fell to the bottom of a shaft at the Randfontein estates gold mine, 25 miles west of Johannesburg yesterday.

The men were sinking a new shaft at the mine and were killed when a hoisting rope snapped and a kibble, a large steel bucket weighing about half a ton and used for hoisting rock and men, plunged to the bottom of the 800-metre-deep shaft. Thirty-two men were working at the shaft bottom at the time of the accident.

Mr Ken Maxwell, the managing director of the Randfontein mine, said yesterday that the mine's hoist had been damaged in the accident and had to be repaired before rescuers could be lowered down the shaft. The accident happened at 7.40 am but rescuers only reached the men pinned beneath the kibble and steel ropes at the shaft bottom eight hours later.

About 600 men are killed in accident in South Africa's gold mines each year

World Economic Indicators

RETAIL PRICES
(1980 = 100)

	Aug. 86	July 86	June 86	Aug. 85	% change over previous year
UK	146.3	145.9	146.3	142.9	+2.4
US	133.0	132.7	132.7	130.9	+1.6
W. Germany	120.2	120.5	121.1	120.7	−0.4
France	162.3	162.1	161.9	159.1	+2.0
Italy	202.2	201.8	201.8	191.3	+5.7
Netherlands	121.8	121.7	122.7	122.2	−0.3
Belgium	142.3	142.2	142.2	141.3	+0.8
Japan	114.7	114.9	115.2	113.6	+1.0

Source: Eurostat

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INTEREST PAYABLE HALF-YEARLY ON 12TH JANUARY AND 12TH JULY

Date of conversion	Nominal amount of 9 per cent Conversion Loan, 2001 per £100 nominal of 10 per cent Treasury Convertible Stock, 1991	Nominal amount of 9 per cent Conversion Loan, 2011 per £100 nominal of 10 per cent Treasury Convertible Stock, 1991
12th July 1987	£102	£105
12th January 1988	£101	£103
12th July 1988	£100	£101
12th January 1989	£99	£99
12th July 1989	£98	£97

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TREASURY ADVISERS FAVOUR TIGHTER BORROWING CONTROLS

Lawson urged to rethink tax cuts

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

SOME OF the Treasury's leading economic advisers are urging Mr Nigel Lawson, the Chancellor of the Exchequer, to forgo sizable tax cuts in next year's budget in favour of *tighter controls on public borrowing.*

The advisers believe that Mr Lawson should opt for lower public borrowing rather than tax cuts in order to shift the balance of growth in the economy away from consumption and towards investment.

Their argument is supported by the Bank of England, which believes that a tighter fiscal policy in the next budget would reassure financial markets, reduce pressure on sterling and allow a fall in the level of interest rates.

The Treasury says that there is no sense in a row between Mr Lawson and his advisers. The internal debate on the borrowing stance between officials and ministers will not get properly underway until after the publication of the Autumn Statement on public spending next month.

Officials acknowledge privately, however, that the weight of opinion among the Treasury's senior economic advisers is that the Chancellor should use any leeway he has to *set a lower target for the public sector borrowing requirement.* Their views will be formally presented to Mr Lawson after the Autumn Statement.

The essence of the argument for lower borrowing is that it would alleviate the upward pressure on interest rates which has dogged the Government over the last year and so encourage faster growth in private sector investment.

Over the six months such investment has virtually stagnated, while rapid growth in consumer spending has become the main engine of economic growth. That spending has in turn been the main factor behind a significant deterioration in Britain's trade position as the pace of growth of imports has far outstripped that of exports.

Treasury officials acknowledge that in an open economy such as Britain's, the level of interest rates is influenced as much by international as domestic factors.

There is a strong feeling, however, that in the run-up to a general election, *tax cuts* would simply stimulate further the boom in consumer spending and imports at the cost of high interest rates which would discourage investment.

In its Medium Term Financial Strategy the Government envisages a steady decline in the public sector borrowing (PSBR) as a proportion of national income. The acceleration of the privatisation programme, however, has given the impression that fiscal policy is much tighter than it appears.

Mr Lawson counts privatisation proceeds – set to total nearly £5bn both this year and next – as negative spending rather than borrowing, despite the fact that state asset sales have the same long-term impact on public finances as direct borrowing.

The concern among Treasury officials that the Chancellor should aim for a significantly lower borrowing target has been heightened by the progress of the current round of public spending negotiations with other departments.

The perception in Whitehall is that the Government's pre-election commitments to boost outlays on the national health service, education and social services will make a *spending overrun in 1987-88* almost inevitable.

The contingency reserve against unforseen expenditure in that year has already been more than halved.

The officials acknowledge, however, that Mr Lawson will be under intense political pressure to deliver tax cuts in what could be the last budget before a general election. At the same time the Government's original intellectual justification for progressive reductions in the PSBR – control of the broad money supply – has been weakened by Mr Lawson's decision to practically dispense with formal money supply targets.

Knowsley refuses to endorse candidate

By Ian Hamilton Fazey

KNOWSLEY north constituency Labour Party last night refused to endorse Mr George Howarth, the by-election candidate imposed by the party's national executive (NEC), voting overwhelmingly for High Court action this morning to secure the right to choose its own candidate.

Nominations for the by-election closed a week today 10 days before the poll on November 13. The local party believes this will allow time for a full hearing of its action, judgment and, if it is successful, a selection process. Leading contenders would then include Mr Les Huckfield, Euro-MP for Merseyside East, Mr Jim Lloyd, the Knowsley council leader and Mr Howarth himself.

The meeting of the party rejected the pleas of Mr Ray Gill, Labour's north west regional organiser, to unite behind Mr Howarth. Voting was 58 to 9 with four abstentions. Mr Gill said that only 71 of 124 people entitled to attend had done so. He claimed many were already working on Mr Howarth's campaign.

Ms Louise Christian, the constituency party's solicitor, said today's action would pursue two lines. The first would challenge the NEC's right to exclude the leading left-winger Mr Les Huckfield, the second its right to impose a candidate.

A full hearing was different from Mr Huckfield's request last week for an injunction preventing the NEC from barring him from the selection process. Mr Roger Henderson QC would be acting for the party.

She was unable to say who was paying for the action, which the party is known to be unable to afford. The party is understood to be receiving financial help from a trade union.

Senior sources in the local party have disclosed privately that if the party loses, ranks will close behind Mr Howarth. The view is that the seat must not be lost to the Liberals, whose challenge is building strongly, partly because it is exploiting Labour's divisions.

If a full trial is allowed, this would mean that the earliest that Mr Howarth can expect the backing of the constituency party is Thursday, only two weeks before polling day.

Ford decision to resume car exports will hinge on quality

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

FORD has hinted that it might start exporting cars from its British factories to continental European markets again for the first time since the mid-1970s.

But it stresses that the quality of vehicles assembled at Dagenham in Essex and Halewood on Merseyside must improve before this can be seriously considered.

Mr Otto Bachmann, controller of Ford's European manufacturing operations, said in a presentation about Ford of Britain's production performance that the quality gap between the UK and the group's continental assembly plants was closing, but not as fast as required, *nor in the right* way.

Mr Bachmann pointed out that productivity at the Ford of Britain factories was catching up with that of the continental plants and there was a link between productivity and quality.

"If we achieve capacity in the British assembly plants it might provide more vehicles than the UK market could absorb. Once quality is improved, there would then be the opportunity to export to the continent," he said.

Ford currently exports only about 5,000 right-hand-drive cars a year to Malta, Ireland and New Zealand plus 4,000 for tax-free sale on the continent to diplomats and members of the UK armed forces.

Exports of assembled cars to continental Ford dealers ended in the mid-1970s, partly because of low productivity in the UK and partly because the continental dealers objected to the quality of the British-built cars and the amount of rectification they had to do before the vehicles could be sold.

The present weakness of the *pound, particularly against the D-*Mark, makes Ford's imports from its continental factories – which for many years have accounted for about half its UK new car sales – much less financially attractive.

However, Mr Derek Barron, the new chairman of Ford of Britain, has said it is a lucky coincidence that the currency change came at a time when substantial productivity improvements at Dagenham and Halewood would enable the company to provide at least 60 per cent of this year's new car sales from British factories.

● Leyland Trucks, the state-owned Rover group subsidiary, is to lay off *up to 1,000 assembly workers at its* Lancashire assembly plant for the first week of November in order to reduce vehicle stocks at the factory.

A further 800 at the Leyland engine plant will be laid off for a week just before Christmas, and assembly employees have been warned that another week's lay-off before Christmas might be necessary.

The 6,000 Leyland Trucks employees recently turned down the management's offer of a 3 per cent pay rise from September 1, subject to changes in working practices being agreed.

Mr George Simpson, appointed managing director last month, said again this week that changes in working practices must be made to bring Leyland Trucks into line with continental competitors if it is to survive.

Murdoch asks Telegraph to print paper

By Helen Hague

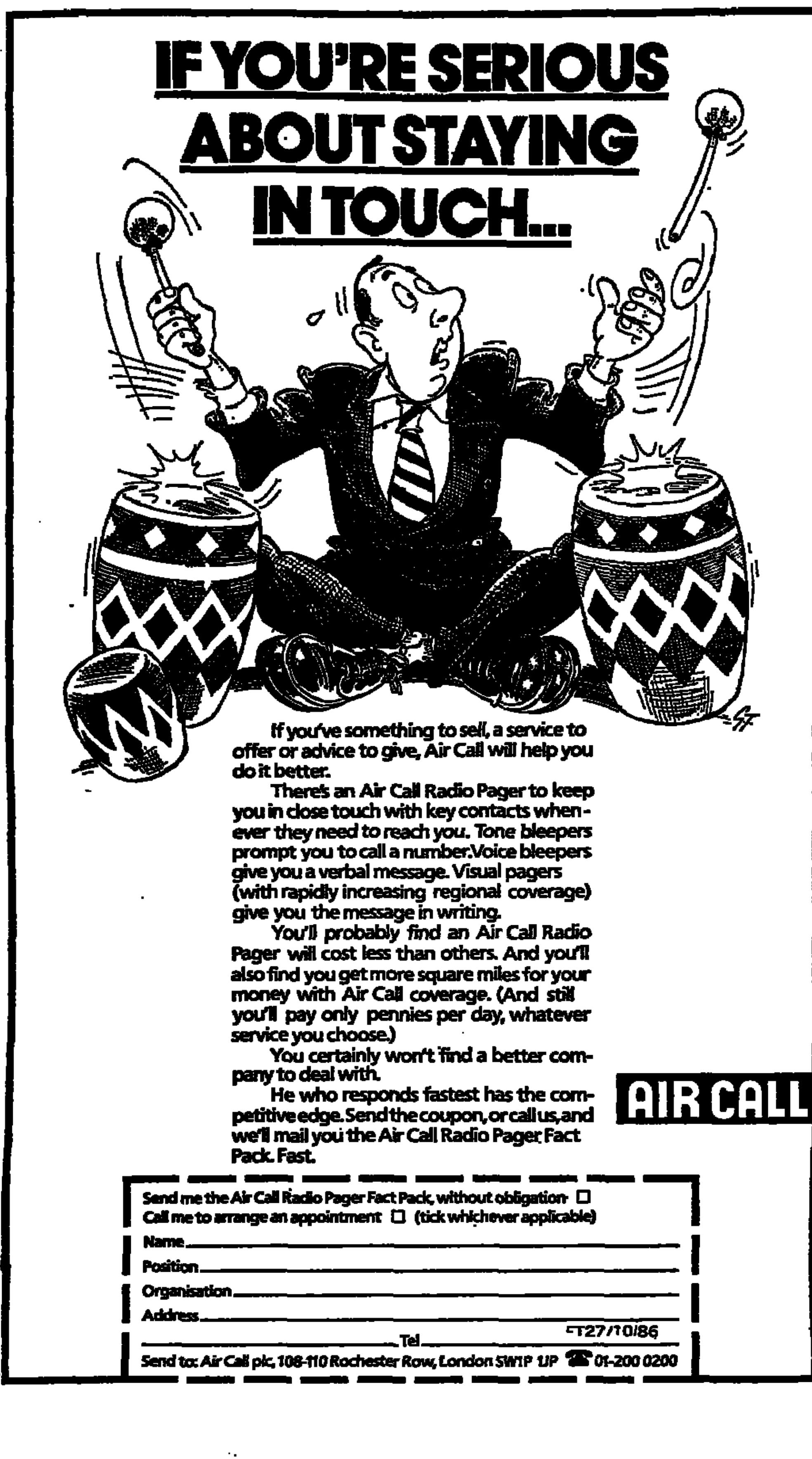
NEWS INTERNATIONAL has approached one of its main rivals in national newspapers to print northern editions of the News of the World, the company's mass circulation Sunday tabloid.

Managers at the Daily Telegraph last night confirmed that Mr Rupert Murdoch's News International had asked if the company would accept a contract to print the News of the World at its new printing plant at Trafford Park, Manchester.

The Telegraph has informed its local production unions at Trafford Park of the approach, but it has not asked them to give a formal response at this stage.

News International's latest move underscores union claims that the company is having difficulty meeting its full production targets for the News of the World at its plants in Wapping, East London and Kinning Park in Glasgow.

The company is still in dispute with unions over the switch to new plants. At national level, the unions are unlikely to sanction any work which would help the company.



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UK NEWS

Nobel scientists to shun Star Wars

By Peter Marsh

THREE Nobel Prize winners are among 500 British scientists who have signed a declaration saying they will refuse to take part in research work under the US Strategic Defence Initiative (Star Wars).

The declaration, details of which were announced in London yesterday is still circulating in UK universities. It will eventually be sent to top officials in the US and British governments, organisers say.

Under an agreement signed between London and Washington last December, UK companies and research institutes are eligible to take part in the $26bn (£18bn) Star Wars project, which seeks a way of shooting down Soviet missiles before they reach the West.

Chemists

Scientists signing the declaration say they will have nothing to do with Star Wars work, saying the programme is technically dubious and will destabilise world peace.

The 500 researchers are mainly physicists, chemists and mathematicians from some of Britain's most prestigious academic institutions such as the universities of Oxford, Cambridge and Glasgow and Imperial College in London.

The Nobel Prize winners signing are Prof Antony Hewish and Prof Brian Josephson of Cambridge University and Prof Abdus Salam of Imperial College.

Other well known names from the scientific world include Prof Stephen Hawking, an authority on relativity theories, and Prof Roger Needham, a leading computer scientist. Both are at Cambridge University.

Approaches

Dr Robert Brandenberger, of Cambridge University, an organiser of the declaration, said its main aim was to show the public that many scientists thought that Star Wars could not work. He said that many scientists in universities were being approached to work on the programme, either by companies already participating or by the US and UK governments.

Terror threat to business in Europe 'rising'

BY CHARLES BATCHELOR

THE TERRORIST threat to business in Europe, particularly to US-owned companies, is on the increase, according to a leading British expert.

The number of incidents, particularly bombings, is rising, according to Dr Peter Janke, director of research of Control Risks, a specialist security consultancy. Although many attacks had caused only slight damage, the bombers' increasing expertise and commitment indicated that greater damage would occur in future, he said.

Three factors have coincided to make Europe more dangerous, he told a seminar organised jointly with the American Chamber of Commerce in the UK.

They are: a resurgence of attacks on capitalism by Marxists; the spur given to environmentalist groups by the nuclear disaster at Chernobyl; and a response by radical Palestinian factions and supporters to the US air strike on Libya.

Any terrorist response from Syria or its supporters to the jailing on Friday of Nezar Hindawi for the attempted bombing of an El Al airliner and the closure of Syria's London embassy is likely to be directed primarily at British diplomatic or military targets overseas, Dr Janke said.

Business would come under threat only if the terrorists decided their first-line targets were too well protected.

The countries most likely to be the scene of renewed terrorist action by Marxist groups are West Germany and France but Italy, Belgium, Portugal, Greece and Spain are also possible. Marxist groups are unlikely to affect business security in the UK, the Netherlands, Scandinavia or Switzerland, although the groups campaigning on nuclear power and in support of Libya may attempt action in those countries.

Dr Janke said there was no evidence that the Soviet Union funded terrorist groups in Western Europe. The risks such groups took in robbing banks and stealing weapons from military arsenals indicated that they must fall back on their own resources.

To illustrate growing co-operation between terrorist groups in different European countries, Dr Janke indicated a joint statement in January 1985 by the German Red Army Faction (RAF) and the French Action Directe, announcing a united front to combat "Nato imperialism"; and a meeting in Frankfurt in February 1986 of 800 supporters of the RAF, Action Directe and the Belgian Fighting Communist Cells (CCC) "to form a common anti-imperialist front."

New freight terminal opens up for shippers

By Kevin Brown, Transport Correspondent

A £20M international freight ferry terminal which has opened at Dartford, east of London, is claimed to be the biggest single private investment in facilities on the River Thames since the Second World War.

The Dartford International Ferry Terminal (DIFT), jointly owned by Blue Circle Industries and Municipal Mutual Insurance, is sited next to the Dartford Tunnel at the point where the M25 motorway crosses the Thames.

A roll-on, roll-off service to Zeebrugge has been operated by Kent Line since mid-September, and talks on further services to continental Europe, including Scandinavia and Spain, are said to be well advanced.

Mr Peter Holden, the chairman of the terminal operating company, claimed that Dartford would have an important advantage over rival ports in the South East of England because its inland position would allow shippers to reduce the need for road transport.

"Roll-on, roll-off traffic between the UK and continental Europe is likely to grow by something like 50 per cent over the next eight to 10 years, and we expect to take a significant slice of that," he said.

Mr Holden claimed that the terminal would have total flexibility of labour under a unique agreement with the Transport and General Workers' Union. An employee profit sharing scheme has also been established in an attempt to avoid labour relations problems.

The terminal covers 20-acres, with a further 40-acres available for expansion. Two deep water berths can accommodate vessels of up to 11 metres draught at all states of the tide.

Charles Leadbeater, writes: Employment in UK ports fell by around 7 per cent last year to 41,208, confirming the trend of job losses established in the previous two years, according to a survey published yesterday by the British Ports Association, and the National Association of Port Employers.

The survey of 160 ports shows that employment has fallen by 20 per cent since 1983 when it stood at 51,473. Manual employment has fallen by 22.2 per cent over the period.

Scots 'still pessimistic'

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

BUSINESSMEN in Scotland continue to be depressed about the commercial climate, according to the quarterly Scottish business survey compiled by the Fraser of Allander Institute at the University of Strathclyde.

In general the survey confirmed the finding of the report for the previous quarter published at the end of July. But it showed a marked decrease in the balance of pessimistic respondents in the manufacturing sector. Optimism had increased markedly in the Dundee and Tayside area, while Glasgow and the west of Scotland remained gloomy.

The level of pessimism in oil and oil-related sectors was in line with that for manufacturing as a whole, following the collapse of confidence in these sectors in the early part of the year. But some manufacturers expected increases in overseas manufacturing orders, with the fall in sterling assisting

The survey was carried out in the last two weeks of September and the first two weeks of October with the chambers of commerce of Aberdeen, Dundee, Edinburgh and Glasgow.

In the construction sector, the balance of companies responding were less optimistic about the immediate outlook than they were three months previously.

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NOTICE CONVENING THE SHAREHOLDERS' MEETINGS

Shareholders' extraordinary and ordinary meetings

The shareholders are hereby notified that extraordinary and ordinary meetings will be held in the Conference Room of Company's headquarters in Via Bertola 34, Turin, at 9.30 a.m. on November 5, 1986 and, if necessary, second meeting will be held on November 26, 1986, at the same time and place, to discuss and resolve upon the following:

AGENDA

Extraordinary meeting

1. Proposal to increase the Company's share capital:
   a. from Lit. 3,000 billion to Lit. 3,360 billion and therefore by Lit. 360 billion, of which:
      - Lit. 120 billion, through a gratuitous issue of 60 million shares, of which 37.4 million ordinary shares and 22.6 million savings shares;
      - Lit. 240 billion by means of an issue of 120 million ordinary shares, which will be offered with pre-emptive right to the shareholders, at the price of Lit. 2,500 each (and therefore at a premium of Lit. 500);
   b. by a further maximum amount of Lit. 40 billion through issue of 7.6 million ordinary shares and 12.4 million savings shares, to be offered for subscription to the Company's employees, at a price of Lit. 2,500 each (and therefore at a premium of Lit. 500).
2. Proposal to issue a fixed-rate debenture loan, consisting of 120 million debentures convertible into SIP savings shares in the ratio of one share for every debenture; the interest rate will be fixed by the Company's representative bodies, between a minimum of 6.50% and a maximum of 7.50%; the conversion price will be set by the same bodies at a value equal to the average fixing price of the SIP savings share at Milan Stock Exchange during the ten operating days before the option's notice rounded to the lower Lit. 100.
3. Proposal to increase the share capital by a further maximum amount of Lit. 240 billion exclusively to service the debenture loan described in point 2 above.
4. Resolutions relating to the above-mentioned proposals, amendment to art. 5 of Company's statute.
5. Proposal to delete art. 21 of Company's statute (Directors' guarantee deposits), related resolutions.

Ordinary meeting

Appointment of statutory auditors in accordance with art. 2401 of the Italian Civil Code.

Special meeting of shareholders owning savings shares

The shareholders owning SIP savings shares are hereby notified that a special meeting will be held in the Conference Room of the Company's headquarters in Via Bertola 34, Turin, at 5 p.m. on November 6, 1986 and, if necessary, a second meeting will be held on November 27, 1986 at the time and place, to discuss and resolve upon the following:

AGENDA

1) Appointment of a representative of the shareholders owning savings shares; determination of the duration and the remuneration as well.
2) Approval of the resolutions adopted by the Shareholders' extraordinary meeting convened on November 5, 1986, regarding the share capital increase for payment up to Lit. 40 bn, to be realized by issuing ordinary and savings shares for the subscriptions to the Company's employees.

The shareholders have the right to participate in the aforementioned meetings provided that, at least five days before the dates established for each meeting, they have deposited their share certificates with the Company's Registered Office, Via San Dalmazzo 15, Turin, or Via Flaminia 189, Rome, or with STET - Società Finanziaria Telefonica p.a., Via Bertola 28, Turin, or Corso Italia 41, Roma, or with any other duly - authorized department in Italy.

In other countries, such a deposit could be made with the branches of duly - authorized Institutions.

for the Board of Directors
the Chairman
Michele Giannotta

The reports of the Board of Directors and of the Board of Statutory Auditors which are currently deposited with the Company's Registered Office in Via San Dalmazzo, 15 Turin and with the Rome headquarters in Via Flaminia, 189, will be mailed to the shareholders who usually attend the Annual General Meeting and to those who request them by opportunely calling the following telephone numbers: Turin - 011/57711, Rome - 06/36881.

The reports will also be at shareholders' disposal from the morning of October 30, 1986 at the aforementioned offices in Turin and Rome.

Gruppo IRI-STET

Company Notices

Notice of Distribution

FIDELITY INTERNATIONAL FUND N.V.

Registered Office: Schottegatweg Oost, Salinja
Curaçao, Netherlands Antilles

To the Holders of
Registered Certificates and Bearer Certificates
U.S. $1.00 par value

Notice is hereby given that, pursuant to the Plan of Liquidation and Reorganisation adopted as of March 20, 1986, as amended, of Fidelity International Fund N.V. (the "Fund"), the Liquidators of the Fund intend to deliver on November 3, 1986 to a consignment facility of Bank van de Nederlandse Antillen (Central Bank), Curaçao, Netherlands Antilles, liquidation proceeds for the benefit of Holders of Registered Share Certificates and Bearer Share Certificates of the Fund who have not surrendered their Share Certificates to The Bank of Bermuda Limited by November 3, 1986. The liquidation proceeds will consist of ten shares of Fidelity International Fund, a Luxembourg société d'investissement à capital variable formed as part of the reorganisation, (the "SICAV") for each one share of the Fund held by a Holder.

To receive their SICAV shares, Holders should deliver their Fund Share Certificate or Certificates (with dividend coupons numbers 10-20 inclusive attached, in the case of Bearer Certificates) to the following banks:

PRIOR TO NOVEMBER 3, 1986
The Bank of Bermuda Limited
Transfer Agent for Fidelity International Fund N.V.
6 Front Street, Hamilton 5-31, Bermuda
Attention: Stock Transfer Division

FROM AND AFTER NOVEMBER 3, 1986
Bank van de Nederlandse Antillen (Central Bank)
Consignment Facility for Fidelity International Fund N.V.
Breedestraat No. 1 (P), Curaçao, Netherlands Antilles

It is suggested that Holders who mail their Certificates do so by registered mail, insured, since the risk of loss of Share Certificates will be borne by the Holder.

For further information, please contact any of the individuals listed below.

By Order of Management
Charles T.M. Collis
Secretary

Mr. Michael B. Sommerville
Fidelity Distributors International, Ltd
P.O. Box 670, Hamilton 5, Bermuda
Telephone Bermuda: (809) 295-0665 Telex: 3318 BA Cable: FIDENTCO

Mr. Philip B. van Neste
Fidelity International (C.I.) Limited
9 Bond Street, Jersey, Channel Islands
Telephone Jersey: (0534) 71696 Telex: 4192260 G

Mr. Paul Forsyth
Fidelity International Investment Services, Limited
25 Lovat Lane, London EC3R 8LL, England
Telephone London: (441) 283-9911 Telex: 884387

NOTICE TO HOLDERS OF

AMERICAN BRANDS, INC.
11% NOTES DUE 1987.
WARRANTS TO PURCHASE
11¼% NOTES DUE 1989.
11¼% NOTES DUE 1989.
12% NOTES DUE 1995.
AND
9¼% NOTES DUE 1998
OF
AMERICAN BRANDS, INC.

NOTICE IS HEREBY GIVEN that the principal executive offices of American Brands, Inc., a Delaware corporation (the "Company"), have been relocated to 1700 East Putnam Avenue, Old Greenwich, Connecticut 06870 and that the Company has appointed United States Corporation Company at its office located at 70 Pine Street, New York, New York 10270, as agent of the Company in New York City upon whom process may be served in any suit, action or proceeding arising out of or relating to the Agreement (as defined below) or any of the Securities (as defined below), or any coupon appertaining thereto, issued thereunder. The terms of the Agreements provide that service of process upon the aforesaid agent with written notice of such service mailed or delivered to the Company, marked for the attention of the Treasurer, shall to the extent permitted by law be deemed in every respect effective service of process upon the Company in any such legal action or proceeding.

This Notice is given pursuant to the Fiscal Agency Agreement dated as of December 15, 1984 between the Company and Citibank, N.A., as Fiscal Agent, the Warrant Agreement dated as of December 15, 1984 between the Company and Citicorp Bank (Luxembourg) S.A., as Warrant Agent, the Fiscal Agency Agreement dated as of February 15, 1985 between the Company and Morgan Guaranty Trust Company of New York, as Fiscal Agent, and the Fiscal Agency Agreement dated as of May 29, 1986 between the Company and Citibank, N.A., as Fiscal Agent (such agreements being herein together referred to as the "Agreements"), under which the Company has issued its 11% Notes Due 1987 and 11¼% Notes Due 19899, its Warrants to Purchase 11¼% Notes Due 1989, its 12% Notes Due 1995 and its 9¼% Notes Due 1998, respectively (such securities being herein together referred to as the "Securities").

Notice of any further change in the office of the Company or of any further or other appointment of an agent for service of process shall be given as provided in the Agreements and the Securities.

AMERICAN BRANDS, INC.
October, 1986.

SANPAOLO
LARIANO BANK S.A.

ECU 45,000,000
FLOATING RATE CERTIFICATES OF DEPOSIT 1984-1989
Guaranteed by
Istituto Bancario San Paolo di Torino

NOTICE OF EARLY REDEMPTION

NOTICE IS HEREBY GIVEN to the holders of the above mentioned Certificates of Deposit that SanPaolo—Lariano Bank S.A. will proceed to the early redemption of the total of the outstanding Certificates of Deposit at their principal amount on the next interest payment date, falling on November 28, 1986.

Interest accruing on the Certificates of Deposit will cease on the same date.

Paying Agent
CREDIT LYONNAIS,
London Branch

London,
October 27, 1986.

MHANGURA COPPER MINES LIMITED

Notice to Members

In consequence of the 28 October 1986 having now been declared a Public Holiday in Zimbabwe, the 40th Annual General Meeting of members of Mhangura Copper Mines Limited scheduled for Tuesday 28 October 1986 at 11.30 am has been postponed to Tuesday 18 November 1986 at 11.30 am at the same venue. Proxies already received by the Company shall be valid for the meeting to be held on 18 November 1986.

By Order of the Board
Z.M.D.C. MANAGEMENT SERVICES LIMITED
Secretaries
Per R. S. Brunt
London

27 October 1986

Legal Notice

COATS PATONS PLC

A Petition was on 13th October 1986 presented to the Court of Session by COATS PATONS PLC, a Company incorporated under the Companies Acts and having its Registered Office at 155 St Vincent Street, Glasgow, asking the Court inter alia to confirm a reduction of capital. The Lord President on 15th October 1986 pronounced the following interlocutor: [illegible]

MACLAY MURRAY & SPENS
Solicitors for the Petitioners
Erskine House
68/73 Queen Street
EDINBURGH

INSOLVENCY ACT 1985
SECTION 4 & 5
AUTHORISATION OF INSOLVENCY PRACTITIONERS

TAKE NOTE THAT I, William Clive Swindell of City Sealing House, 7 Wellington Street, Leeds LS1 4DW, intend to apply to the Secretary of State under the provisions of the above Act for authorisation to act as an Insolvency Practitioner. Any person having reason to believe that such authorisation should not be granted should, within 28 days of publication of this notice communicate such reason to the Department of Trade and Industry, Room 509, Companies House, 55 City Road, London, EC1Y.

IN THE MATTER OF

ORBIT MARKETING MIDDLE EAST LTD.

AND IN THE MATTER OF
THE COMPANIES ACT
THE CYPRUS COMPANIES LAW
CAP 113

NOTICE IS HEREBY GIVEN that the Creditors of the above-named Company, which is being voluntarily wound up, are required on or before the 21st day of November 1986 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any), to the undersigned Mr Antony Hajiroussos, FCCA, of Julia House, 3 Them Dervis Street, P.O. Box 1612, Nicosia, Cyprus, the Liquidator of the said Company, and if so required by notice in writing from the said Liquidator, are, personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 28th day of October 1986.
A. HAJIROUSSOS, FCCA.
Liquidator.

STROKE STRIKES WITHOUT WARNING

IT'S COMMON...
Over 100,000 people in the United Kingdom suffer a Stroke every year.

IT'S KILLING...
One death in six is due to a Stroke or its consequences.

IT'S DISABLING...
There are more than 150,000 disabled Stroke survivors in Britain.

IT'S NEGLECTED...
About a half of all Strokes could be prevented.

IT'S TREATABLE...
Prevention and rehabilitation need funds urgently.

National Stroke Campaign
of THE CHEST, HEART AND STROKE ASSOCIATION

R.S.V.P.
Remember Stroke Victims Please

Registered Charity No. 211015

To: The Chest, Heart and Stroke Association, Tavistock House North, Tavistock Square, London WC1H 9JE. Telephone: 01-387 3012

I enclose a donation in support of the National Stroke Campaign of £

Please send me somewhat details and information about the Campaign.

Name

Address

Signature FT

UK NEWS

Minibuses take over as controls are lifted

By Kevin Brown, Transport Correspondent

THE UK market for traditional double and single deck buses has been virtually destroyed by deregulation in the bus industry, which came into operation yesterday.

Registrations of traditional buses are expected to fall to little more than 300 next year from an annual level of around 3,000 before the introduction of deregulation legislation in Parliament in 1984.

Bus operators have switched investment into minibuses carrying between 16 and 25 people, which offer high frequency, low cost services and are less vulnerable to competition.

Around 3,000 minibuses have been ordered by subsidiaries of the National Bus Company. Thousands more are being introduced by municipal and independent operators.

The major beneficiaries have been volume producers of light vans suitable for conversion, such as Ford, Mercedes-Benz, Freight Rover, part of the Rover Group, and Volkswagen.

A number of specialist manufacturers have also entered the market, including Optare, an independent company operating from a former Leyland Vehicles plant in Leeds, northern England.

Demand for minibuses is estimated at between 3,000 and 5,000 a year, depending on the success of deregulation. Ford forecasts a total market of around 20,000 vehicles in the next four years in the 15- and 21-passenger sector alone.

The switch of investment has caused serious problems for the three big manufacturers of traditional vehicles – Metro-Cammel-Weymann (MCW), part of the British Laird Group, Hestair-Dennis, and Leyland Buses, which is in the process of a management buy-out from Rover Group.

Mr Trevor Webster, chairman of the public service vehicles section of the Society of Motor Manufacturers and Traders, said there was "a very serious possibility" that long-term production of traditional buses could be threatened.

Mr Webster, who is sales and marketing director of MCW, said: "We could lose the skills if new orders do not come in. It is of great concern to the industry and suppliers."

He added: "We are all hanging on by our shirt tails. The number of people employed in producing heavy duty buses must have gone down by about two-thirds by now since the Bill was first promoted."

Mr Denis Quin, director-general of the Bus and Coach Council, which represents bus operators, said the council was "deeply concerned" about the future of traditional manufacturers.

"The time will come when we shall desperately need our conventional buses, and if in the meantime suppliers have been killed off we will be in a horrendous position where we have to rely entirely on exports," he said.

MCW has introduced its own minibus, the 25-seat Metro-Rider, and expects to sell up to 500 this year.

Phillips puts down its marker in the pursuit of Christie's

BY ANTONY THORNCROFT

THE NEW saleroom season in London has got off to a good start, not least at Christie's. Last week the auction house sold the contents of Sheringham Hall in Norfolk for £1.25m, way above forecast, and its London sales have had their share of record prices; for example £126,500 was paid recently for a copy of Gould's "Birds of Australia," one of the finest of the 19th century illustrated books.

And Christie's has been able to announce choice items for forthcoming auctions – a Constable painting of Flatford Lock, which should make aver £1m, and a Manet view of Paris, which could top £3m.

Yet while the events in the actual saleroom have exceeded expectations there has been even more excitement generated in the boardroom of the 200-year-old company. After more than a year of takeover speculation, Mr Christopher Weston, chairman of rival auction house Phillips, has announced his intention of taking a stake in Christie's.

On the surface it is a brazen move. Phillips has a turnover of £60m and showed a slight fall in sales last season, while Christie's grew by 8 per cent to £365m. More to the point, Christie's has a successful saleroom in New York, which now rivals London as an international art market, while Phillips has failed to make much impact there. By any criteria Christie's has a definite edge – in size, profitability, ability to attract the most expensive items, and reputation of its leading experts.

But Mr Weston's approach has to be taken seriously. Although he is not making a bid now he is putting down a marker. If Christie's received a bid from a less acceptable source, Phillips would be in a good position to come in as a white knight in a reverse takeover bid.

It thinks it has much to offer its big competitor. Alone of the British auction houses it has an extensive network of 15 provincial salerooms while Christie's makes do with Glasgow. More to the point Mr Weston must reckon that he can solve Christie's top management problems.

Mr Jo Floyd, chairman of Christie's, is at retirement age. He is still at the helm because his chosen successor, Mr David Bathurst, was forced to step down when he was discovered to have lied about the results of an important Impressionist sale in New York in an attempt to boost confidence in the market.

In contrast, Mr Weston, who is in his 40s, is a dynamic figure who has secured for Phillips a respected place in the middle and lower price ranges of the antiques market. He is the leading shareholder in the company and also has firm links with financial institutions.

He does not expect to be short of cash should Christie's signal the need to be rescued from any unwelcome bidder.

Mr Weston will continue to buy shares in Christie's if they seem modestly priced. The recent speculation has made them erratic. He is prepared to wait. What makes the situation interesting is that the directors and employees of Christie's, plus large, friendly shareholders, control almost half the shares. A change in ownership is only on the cards if Mr Floyd and other major shareholders such as Mr L.G.M. Hannen, want to sell.

What might deter predators is the fact that Christie's in New York is facing two potentially expensive legal suits – from the banker Mr Dimitry Jodidio, who claims that Christie's mishandled the sale of his Impressionist paintings which led to the undoing of Mr Bathurst, and from Eskandar Aryeh, a property man who bought a Fabergé egg from Christie's for $250,000 which was later found by an expert not to be one of the famous Russian Imperial eggs produced by this jeweller. Both suits involve millions of dollars in claimed damages, but Christie's is confident of seeing them off.

The rumours around Christie's have not affected its ability to attract major works of art for sale. It has traditionally had closer links with the artistocratic British families than Sotheby's the other giant in this field.

Barclays plans launch of debit card

By Our Financial Staff

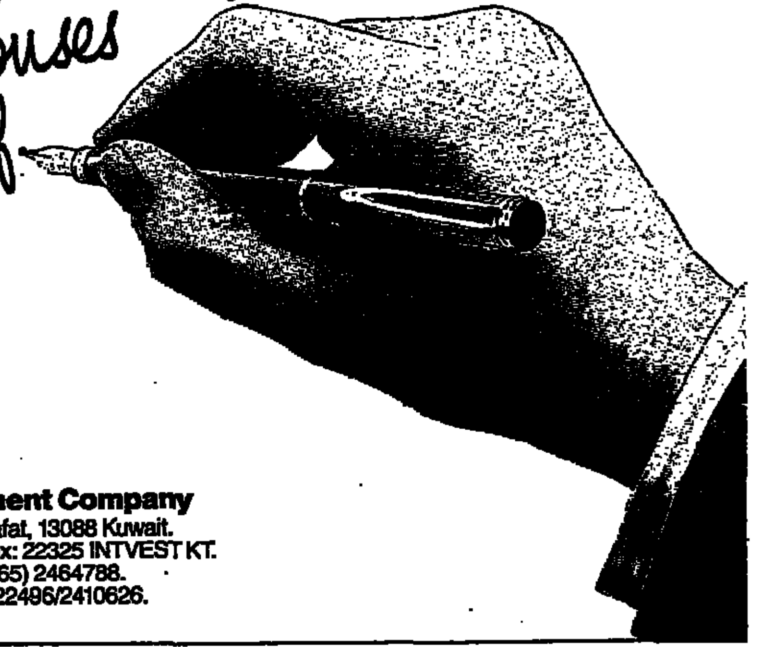
BARCLAYS BANK is planning to launch in the summer of next year a new debit card which will take the place of the traditional cheque and cheque guarantee card in retail transactions made by its customers.

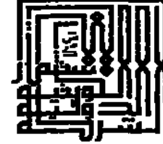
The card, yet to be named, will be used by customers for their retail transactions, in the same manner as a current credit card, signing a paper voucher. However, the transaction will be debited against their current cheque accounts, not a separate credit account.

Thus, as long as the individual's current account is in balance no interest will be paid on the transaction. If the transaction results in the account becoming overdrawn, then the usual overdraft interest rates would be applied. Customers will also be able to use the card for obtaining cash at bank branches and cashpoints.

Mr Seymour Fortescue, a general manager of Barclays Bank claimed that this development was a "major first" for the bank. He felt that many of the bank's customers would welcome the convenience of a plastic card together with the ability to make the transaction on their cheque account.

Mr Fortescue said that the new card would avoid the need for customers to write out cheques and present cheque cards, remove the present £50 cheque guarantee limit and make 24-hour a day authorisation possible. However, he emphasised that the traditional cheque book and cheque guarantee card would still continue.





Kuwait International Investment Company
Al-Salhia Complex, P.O. Box 22792, Safat, 13088 Kuwait.
Telephone (General): (965) 2438273-9. Telex: 22325 INVEST KT.
Telephone (Direct): Investment: (965) 2464788.
Syndications and Banking: (965) 2422496/2410626.

IF YOUR COMPANY HAS OVER 20 CUSTOMERS, THE CHANCES ARE THAT ONE OF THEM WILL GO BUST ON YOU.

FIND OUT WHICH ONE. QUICK.

A desktop computer terminal linked with Hotline instantly puts you in touch with the country's most efficient source of business information.

Within seconds you can examine in detail your target company's latest accounts, leading personnel, products and much more.

To find out how, tap out this number today: 01-836 9625.

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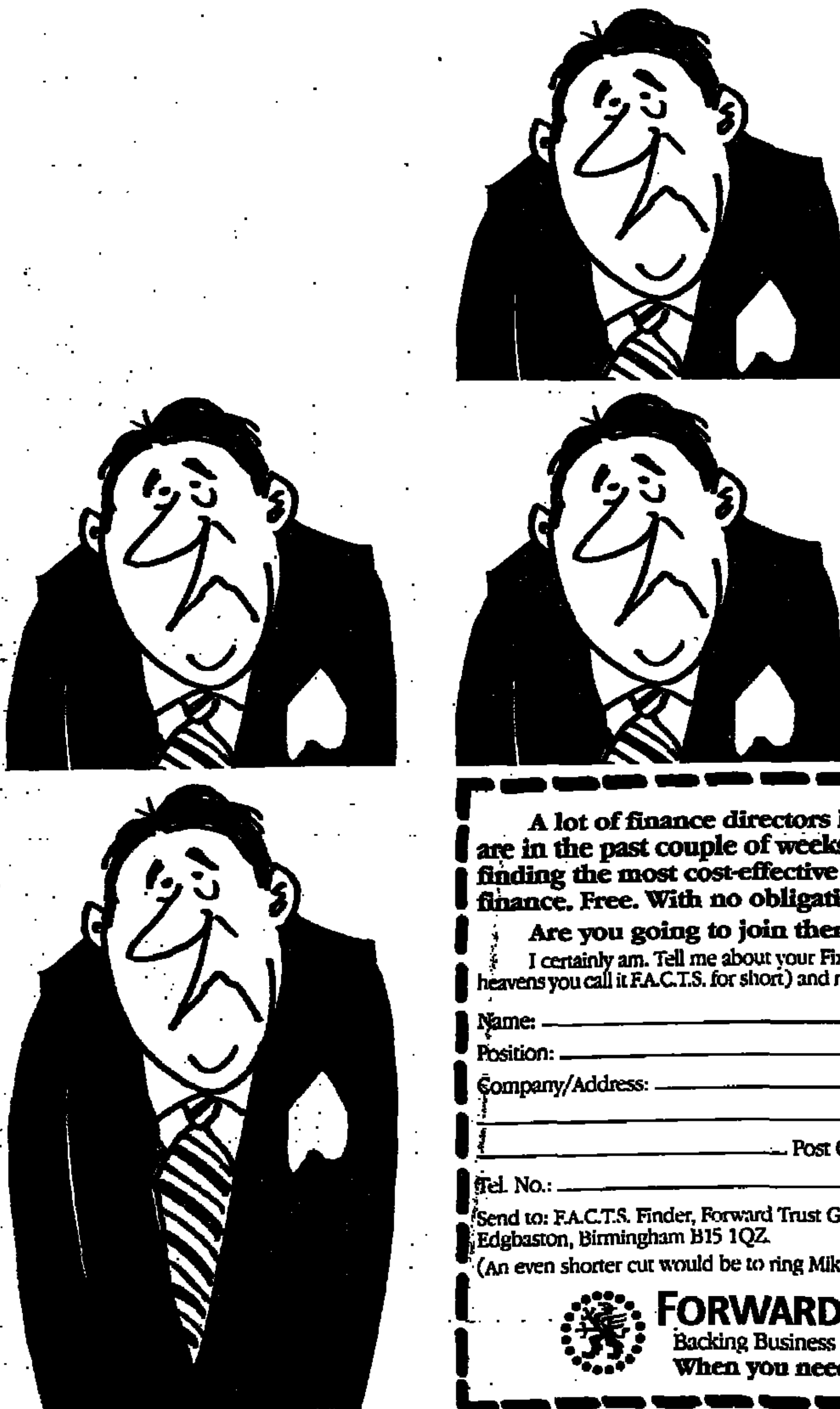
PLUG INTO THE INFORMATION REVOLUTION



A lot of finance directors have shown how sharp they are in the past couple of weeks, by taking a short cut and finding the most cost-effective package for their asset finance. Free. With no obligation.

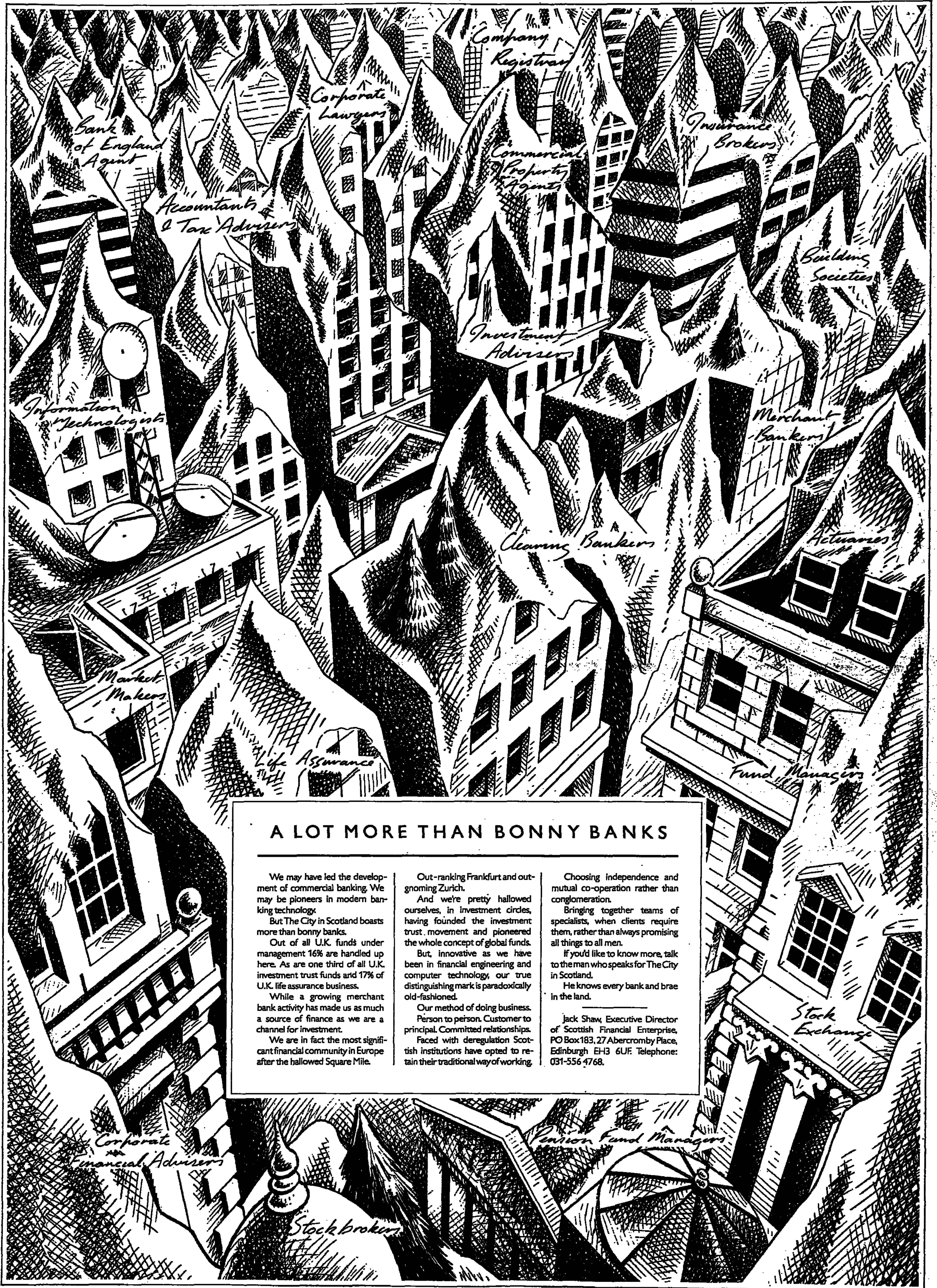
Are you going to join them?

I certainly am. Tell me about your Fixed Asset Cashflow Test System (thank heavens you call it F.A.C.T.S. for short) and recommend the scheme that's best for me.

Name:
Position:
Company/Address:
Post Code:
Tel. No.:

Send to: F.A.C.T.S. Finder, Forward Trust Group, Donne House, 12 Calthorpe Road, Edgbaston, Birmingham B15 1QZ.
(An even shorter cut would be to ring Mike Hurley on 021-455 9221 right now.)

FORWARD TRUST GROUP
Backing Business with Midland Bank Group.
When you need finance, we've got it. FAF 7



-THE CITY IN SCOTLAND-

UK NEWS

Alliance revises SDP tax plans over anomalies

BY PETER RIDDELL, POLITICAL EDITOR

THE NUMBER of potential losers produced by the Social Democratic Party's controversial tax and social benefit proposals will be significantly reduced when a revised version is completed by a joint Alliance working group.

The SDP's proposals for an integration of the tax and benefit system implied that *some two earner families on* just above £10,000 a year might lose out.

The resulting controversy forced the concession by the leadership that the details would be reworked, although Dr David Owen, the SDP leader, has strongly reaffirmed *his support for the redistribu*tive thrust of the tax and social security package. Since the SDP conference this issue has been overshadowed by the Alliance nuclear defence policy row.

Dr Owen and Mr David Steel, the Liberal leader, decided that the problems arose over the policy being too dependent on work by social security experts in both parties.

Consequently, political control by the two leaders is being exercised on the work of a small sub-committee of the 34-strong joint Liberal tax and social security committee and SDP tax reform group.

They hope the revised policy can be completed early next month before being independ*ently audited by an economist* in time for possible publication [illegible].

The main aim at present is to reduce the number of losers, particularly among two earnier families on about £12,000 a year, who are among the Alliance's key target voters. This problem arises from the integration of national insurance and income tax, which hits the family with two incomes rather than one where *one member* stays at home.

The current work at eliminating such losers and other

David Steel: saw where problem lay

anomalies, is making the proposals more complicated.

The Alliance leaders, however, insist that any modification should be within a tight public spending constraint.

Any revisions will increase the net cost of the scheme and this will be made consistent with the Alliance's general plans for modest fiscal expansion which will include a social security component.

The revisions are now involving not only representatives of the two party leaders but also the relevant economic and social security spokesmen (Mr David Penhaligon and Mr Archy Kirkwood for the Liberals and Mr Ian Wrigglesworth and Mr Charles Kennedy for the SDP).

Mr Dick Taverne, the former Labour Treasury minister and main author of the original plan, remains fully involved. Following the earlier row he *said that at least two-thirds of* taxpayers would gain and that any basic rate taxpayers losing would not lose a lot.

Peter Riddell looks at the ups and downs in the career of the Tories' former deputy chairman

Archer's life story takes another turbulent twist

"A HIGH RISK investment" is how one senior minister described the appointment of Mr Jeffrey Archer as deputy chairman of the Conservative Party in September last year. And so it has proved.

His whole career has been marked by melodramatic ups and downs almost out of the pages of his several best-selling novels.

Indeed, the squalid trap which led to his resignation is similar to an episode from his political saga First Among Equals, now being serialised on television. In the book a Labour minister is blackmailed by a prostitute.

The difference is that Mr Archer denies ever having met the alleged prostitute although he admits offering her a payment to go abroad.

The bizarre story revealed yesterday both in the News of the *World and in* Mr Archer's own statement leaves open several questions about the role of the newspaper in monitoring the talks over the payment as well about his own actions in relation to someone he claims never to have met.

The more sanctimonious tendency of Tory MPs were yesterday naturally quick to condemn but more MPs were sympathetic with Mr Archer's plight as yet another victim of the censorious attitudes still apparently ruling in British public life.

Yet this is not the first time that Mr Archer has been in the middle of controversy, or even political scandal. He has always had a reputation for energy, verve and charm, but this has been coupled with a talent for self-promotion and a certain naivety.

He is not a man to look before he leaps—and that has caused not only waves but also offence to *the conventionally minded*. To them he is "unsound," too flashy, rootless and lacking any real substance.

This view has been aired *ever* since he was at Oxford in the early 1960s, where he won an athletics blue and organised a charity concert by the Beatles.

Ashley Ashwood

Jeffrey Archer: more showman than politician

This raised much money but also eyebrows among those who regarded Mr Archer as being *too pushy*.

He became known for being associated with the famous as well as for making money. But he was in the Commons, for Louth in 1969, when he was less than 30.

But financial problems, caused by the collapse of a Canadian investment, forced him to leave the Commons in 1974 when he was faced with the threat of *bankruptcy*. He quickly, and profitably, bounced back with a novel—Not a Penny More, Not a Penny Less—based on his own experiences.

This was followed by further successes on best seller lists on both sides of the Atlantic which have made him a very wealthy man.

But writing best sellers did not satisfy Mr Archer and by the mid-1980s he was making no secret of his desire to get back into politics. He actively cultivated Conservative leaders—notably at *his regular* lunches at his Albert Embankment flat overlooking the Palace of Westminster—and also spoke to a larger number of local Tory associations.

This led to his appointment as Tory deputy chairman, which primarily meant touring the country rallying the Tory faithful. Until the beginning of this month he had addressed 318 meetings.

For most of his nearly 14 months at Conservative Central Office he was virtually silent. This was largely because of several initial *gaffes* — saying that many of the unemployed would not get off their backsides, over party presentation and on Northern Ireland. He readily admitted that the exuberance needed to promote his novels would have to be reined back.

Mr Archer's problem is that for all his talents as the darling of the Tory "chicken and peas" circuit, ministers and Tory MPs have never felt entirely safe with him. Ever since his first "fall" in 1974 he has been seen as more of a showman than a politician. He had become expendable.

Those who have been predicting *his fall ever since his* appointment will be saying: "I told you so."

Yet throughout his career Mr Archer has remained an essentially engaging and generous character.

But as he himself wrote in late August about the events of the *past year*, "nothing *is* predictable in politics" — though perhaps unwisely he added: "I myself shall be more predictable."

Gould gives warning to the City

BY OUR POLITICAL EDITOR

THE NEXT Labour government must cut the City of London down to size, Mr Bryan Gould, Labour's trade spokesmana rgued at the start of Big Bang.

Writing in Tribune newspaper, Mr Gould says: "The Big Bang means that the City of London, which has always posed a major obstacle to the aspirations of Labour governments, will become a quite different, and in many respects more formidable opponent.

"It also means that the problems of regulating the City and stamping out City fraud will become more difficult."

Mr Gould argues that the City must be cut down to size in terms of its influence over economic policy and its role in *providing investment* capital to industry. He states: "Most Labour governments have come to grief not as a result of some legislative failure, but because they have been susceptible to City blackmail.

"New technology, which makes it easy to send money, also makes it easy to record and monitor transactions. Exchange controls are practically feasible and could be *introduced (in addition to Mr* Roy Hattersley's proposals for repatriation of funds) if necessary.

"The internationalisation of the City will, in fact, increase the powers of a Labour government in some respects," he argues, pointing to the dependence of the international community upon London as a centre.

Mr Gould *says that the bar*gaining may not be entirely one way. "That the new City will be international in character means that it will not necessarily be locked into the domestic political prejudices which have made the City in the past such an unreliable instrument of Labour government policy."

He reiterates Labour pledges to give the securities and investments board a clear statutory identity.

Mr Gould also talks of the need *to incorporate* the Takeover Code and Takover Panel into the statutory framework of City regulation. This will be proposed by Labour later today during the final stages of the Lords consideration of the Financial Services Bill.

Libel row MP ends action over Young Tory

MR NEIL HAMILTON, one of two Tory MPs awarded damages and costs by the BBC *last week* over the Panorama libel action, said yesterday he was not going to proceed any further against Mr Philip Pedley, the chairman of the Young Conservatives at the time of the programme.

***Mr Hamilton, MP for Tatton,* in a letter to Mr Pedley, said he did not think any apology he might extract would be "worth the bother of obtaining."**

Mr Pedley was a principal source for the Panorama programme broadcast in January 1984 entitled "Maggie's militant tendency."

Commission suggests path for N-weapons talks

BY OUR POLITICAL EDITOR

A POSSIBLE way out of the post-Reykjavik impasse on arms control has been suggested by the Palme Commission on Defence and Security Issues attended by leading US and *Soviet politicians*.

The commission, which met in Budapest, Hungary, over the weekend was attended by Mr Giorgi Arbatav, a member of Mr Gorbachev's negotiating team in Iceland, Mr Cyrus Vance, the former US Secretary of State, and by Dr David Owen, the SDP leader and former Foreign Secretary.

Dr Owen yesterday highlighted the talks between the US and Soviet representatives and pointed to the commission suggestion that the draft of a treaty over intermediate nuclear weapons, including SS20s and cruise and Pershing missiles, should be initialled but *not ratified until there agree*ment over the Strategic Defence Initiative, a 50 per cent reduction of strategic weapons and progress on a Test Ban Treaty.

Dr Owen said that initialling the treaty would mean that in Britain no more cruise missiles would be deployed and that work at Molesworth could cease.

The commission also agreed that the anti-ballistic missile treaty should neither be broadened nor narrowed.

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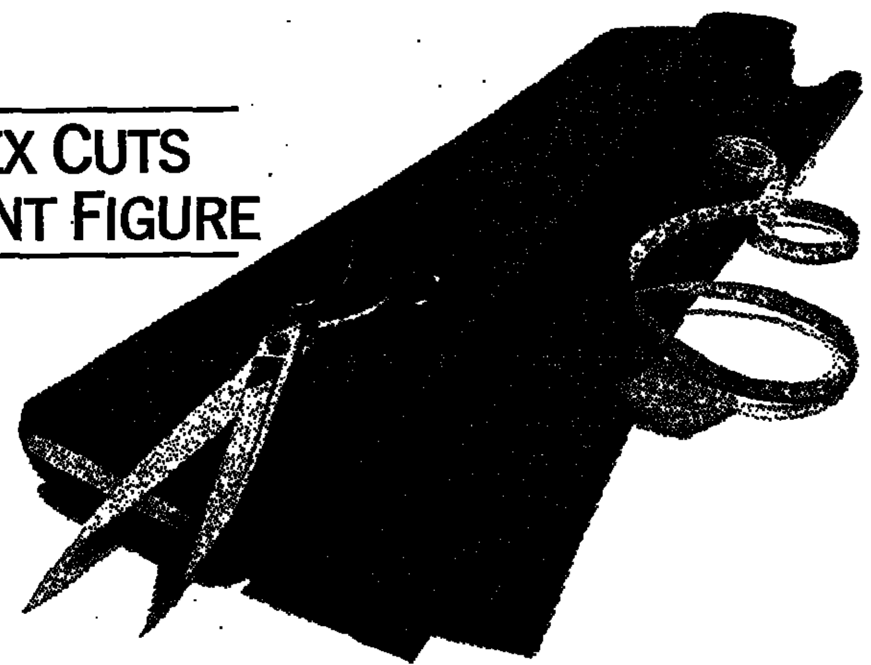

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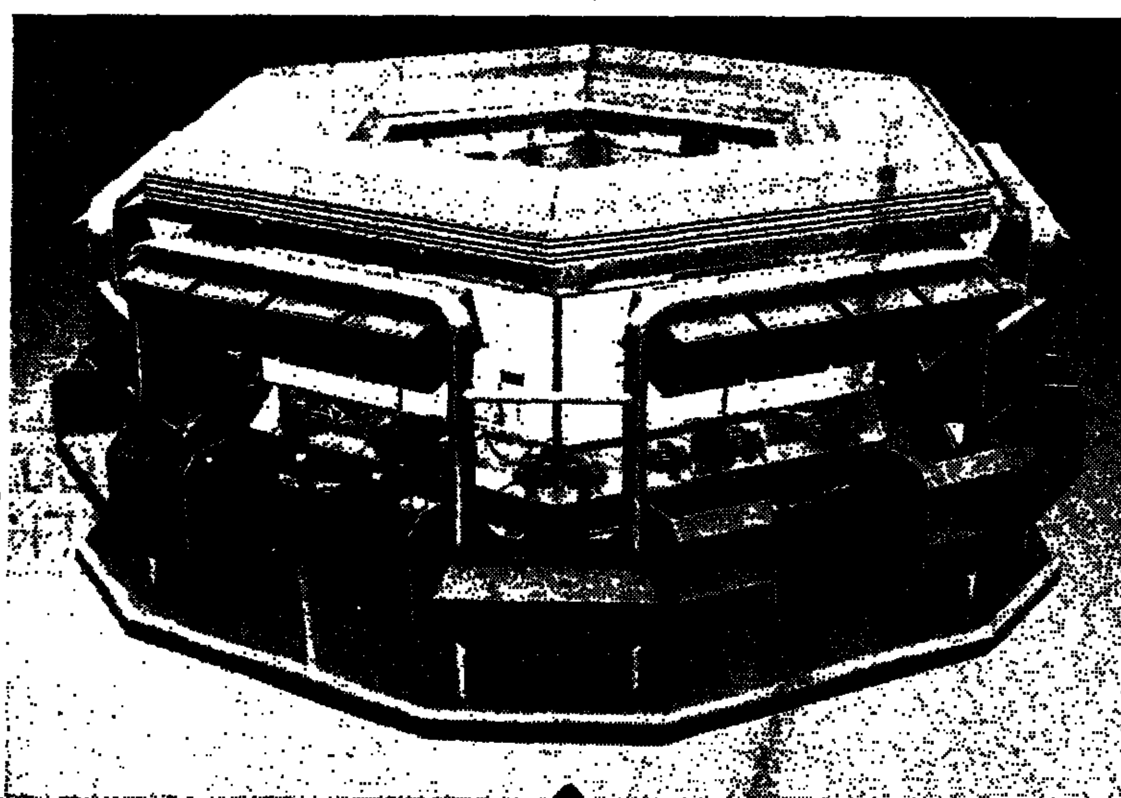

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Pay deals fall to three-year low, says CBI

BY CHARLES LEADBEATER, LABOUR STAFF

PAY SETTLEMENTS in manufacturing industry have fallen to an average of 5.5 per cent, the lowest level for three years, according to a report published today by the Confederation of British Industry.

The CBI's Pay Databank survey of manufacturing pay deals over the past month confirms evidence it produced in September that average pay rises have fallen half a point from 6 per cent in the first half of the year.

The figures show that manufacturing pay rises have fallen by one point from their most recent peak of 6.5 per cent in the third quarter of 1985.

The Pay Databank study shows that 54 per cent of the 1,106 pay rises reported since August were between 4.5 and 6.5 per cent.

However, the range of settlements remains quite wide, reflecting the companies' differing market positions, the CBI says. Just over 12 per cent of settlements were below 4.5 per cent, and almost 15 per cent were above 7.5 per cent.

CBI *analysts* say the downward movement in pay settlements reflects lower retail price inflation feeding into pay bargaining after a long delay. But with the path of price inflation uncertain, the CBI is not yet convinced that the settlements of the past three *months* will establish a lower trend for pay deals next year.

Pay Databank analysts believe this may have been reinforced by companies adopting more sophisticated communication techniques to make their workers more aware of the general business outlook.

However the CBI believes companies may be compensating workers for lower basic pay rises with higher "one off" bonuses, awarded at management's discretion outside the normal pay settlement.

A CBI-sponsored analysis, as yet unpublished, of the Government's New Earnings Survey has found that special bonuses have become increasingly popular in the past few years.

Only 3 per cent of manufacturing settlements in the past year have incorporated reductions in the basic working week. The CBI says that many manufacturing companies are anxiously awaiting the outcome of wide-ranging talks between the Engineering Employers' Federation and the engineering unions, aimed at trading off shorter working hours for radical changes to working practices, before they consider reducing working time.

Janet Bush finds industry has reservations over a tax plan

Two cheers for profit-related pay

BOTH SIDES of British industry have responded to the green paper on profit-related pay with general enthusiasm about the concept of profit sharing but some deep-seated criticisms about current proposals which could put the whole initiative at risk.

Mr Nigel Lawson, Chancellor of the Exchequer, was looking for signs that his proposed tax relief would encourage a large number of companies to adopt profit-related pay schemes and maximise any macroeconomic benefits but response has been patchy at best. It is by no means clear whether he will go ahead with his proposal, first anounced in his March Budget and detailed further in the July green paper, to award tax relief to those workers who opted to link part of their pay to profits.

Mr Lawson has said that his decision on tax relief would rest mainly *on whether profit*-related pay (PRP) would help employment and lessen redundancies in times of recession. But almost all responses to the green paper said there was no hard evidence that PRP alone would have any short- or long-term effect on employment.

The response to the tax proposals in the green paper was predominantly critical but for a host of different reasons. Some submissions backed the idea of a tax incentive but said the amount of relief being proposed was too small. Some employers felt companies should also be awarded relief to compensate them for the extra administration and auditing which would be needed.

The Trades Union Congress argued that tax relief was unnecessary because many companies had already started profit-sharing schemes. The view that other forms of fiscal incentive would be more cost efficient and more effective in encouraging British industry also emerged strongly.

Treasury officials stressed tax relief on PRP was always only one of a number of fiscal options in the next Budget. They did not expect an announcement on PRP much before the Budget as *the Treasury now faces* the task of analysing more than 80 submissions.

The Government has already *proved itself to* be a good listener and scaled down its original proposals in response to criticism in British industry. Between April and the July green paper, the minimum proportion of a worker's pay which would have to be linked with profits to qualify for relief was cut from 20 per cent to 5 per cent.

The amount of tax relief was halved. The green paper now stipulates that a quarter of the profit-related pay received by each employee would be exempt from income tax up to a maximum of 5 per cent of their total pay or £1,000, whichever was the lesser.

This would give a worker earning £10,000 a year, close to the national average, a maximum of £12 if 20 per cent of his pay were profit-related. If the proportion were only 5 per cent, the worker would receive maximum relief of only £3 a month.

The Confederation of British Industry told the Chancellor that the level of tax relief was not enough to achieve a substantial increase in employee motivation and therefore company performance. This view was shared by the Institute of Directors which called upon the Chancellor to give companies adopting PRP *some tax* relief as well as their employees.

The Engineering Employers Federation was even more critical, saying that the amount of tax relief available was so low as to be meaningless. Workers were being asked to put as much as 20 per cent of their pay at risk by opting for a profit related element which could move up or down for a very small tax advantage. The TUC argued that employees were being asked to share the risks of their company but not the decision-making.

Mr Lawson believes PRP has two main benefits. The first is to encourage employee motivation. The second is that, if the level of pay could respond automatically to market conditions, companies would be less likely to lay workers off in times of recession and correspondingly be less reluctant to take them on when business was going well.

The CBI and the IoD applauded the Government's initiative in encouraging debate on how best to relate pay to performance and backed its work so far in encouraging different profit sharing schemes. But their canvasses of opinion turned up a contradictory set of results.

The institute, which represents 33,000 company directors and business leaders, said 68 per cent of directors who did not have profit-sharing or share ownership schemes would consider introducing PRP if the green paper became law, and 83 per cent of companies with such schemes would consider PRP in addition to existing arrangements or would modify these schemes to bring them within the tax relief proposed.

However, the CBI, which represents 250,000 companies and more than 200 trade associations, employer organisations and commercial organisations, said only a small minority of its members would consider the PRP proposals in their current form.

Post Office to open contact points for customer complaints

BY DAVID THOMAS

THE POST OFFICE is to set up contact points throughout the country for customers with complaints.

The move comes in the wake of a highly critical report on the service published today by the Post Office Users' National Council, a statutory body representing customers' interests.

The report, reviewing the last two years, concludes that customers "have benefited little" from the corporation's improved financial performance since 1984.

It lays much of the blame for this on the financial targets set by governments, and says: "The difficult balance between strict commercialisation and customer service is being tilted against the latter by ever-increasing financial demands by government."

It criticises the failure of performance against a national target of 90 per cent of first-class letters ready for delivery the day after posting.

"The essential point is that the Post Office knows that on certain routes performance cannot meet the national target."

It calls for targets to be published for both local and long-distance traffic so that customers can judge what service they can realistically expect.

Other proposals in the report include more task forces to investigate mail blackspots; improved weekend services; and more stress on customer contact, such as complaints handling.

The Post Office has reacted angrily to the report's claim that there have been few improvements for customers.

It points to the fact that postal charges have gone up by less than the rate of inflation in the past two years, and to special initiatives costing £10m recently announced to improve performance.

It then mentioned the network of local contact points which customers can contact by letter or phone, if they have a problem.

Customer Audit and Review of the Post Office. Pounc, Waterloo Bridge House, Waterloo Road, London SE1 9UA.

Advanced tractor launched

MASSEY-FERGUSON today launches what it says is the world's first "*intelligent*" tractor, developed at a cost of more than £40m.

The range of high-performance machines can "think" out the most cost-effective way of operating and so save time and money for farmers under pressure from increasing costs, the company says.

The development programme has produced a tractor controlled by two small on-board computers which boost performance and productivity as well as providing many extra safety features. Routine chores are *performed by another small* micro-chip under the tractor.

Computers can control the amount of wheel-spin, disengage for-wheel drive when necessary, and automatically engage it in slippery conditions. At any time the driver can obtain a digital read-out on the tractor's work-rate and fuel consumption.

The tractor range, which includes some machines with 16 forward and 16 reverse gears, starts at £16,000.

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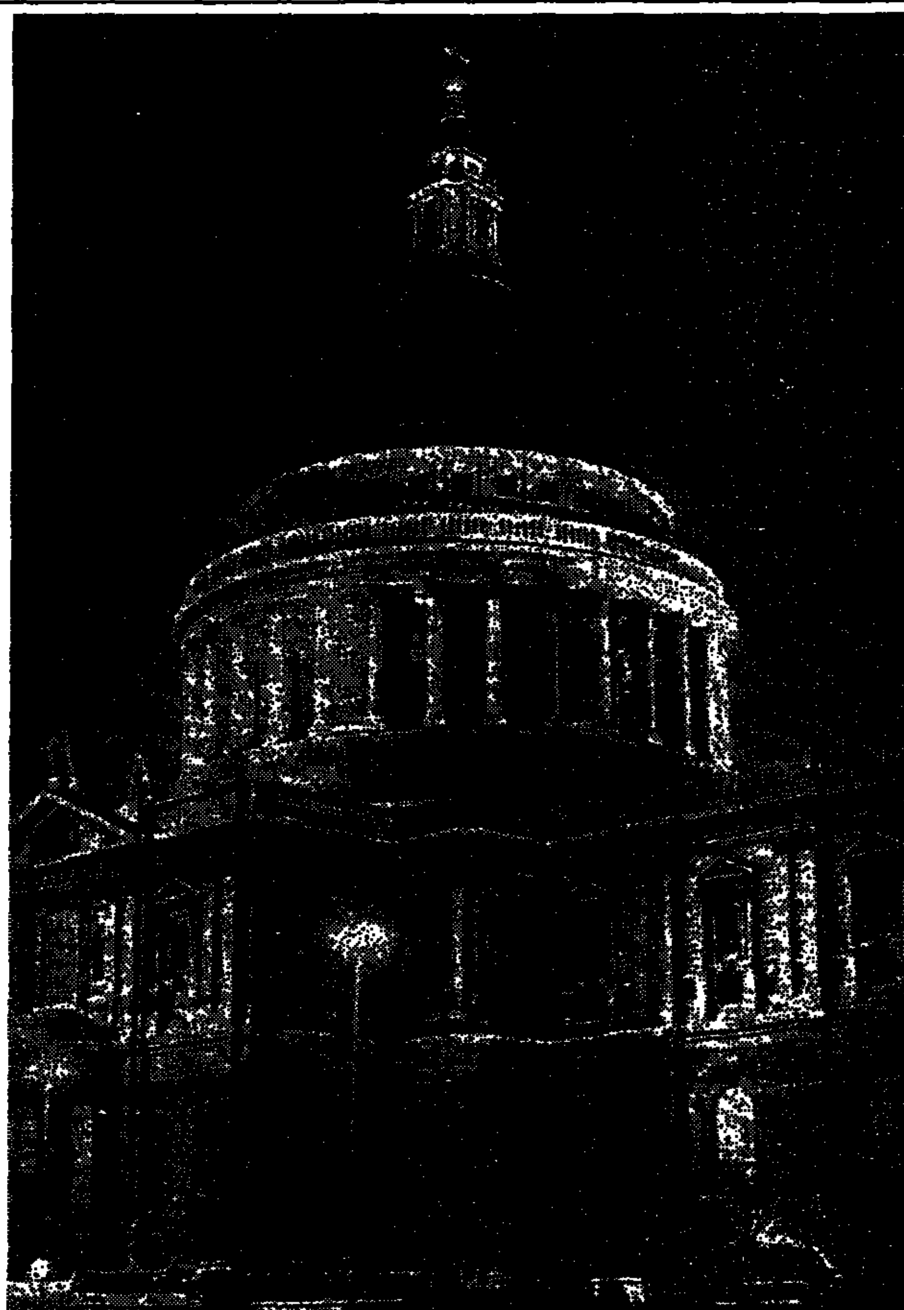

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INTERVIEW

A lawyer in exile

'We want to forget about race,' Oliver Tambo, president of the African National Congress, tells Victor Mallet

OLIVER TAMBO, President of the African National Congress (ANC), is a far cry from the archetypal guerrilla leader. The man at the helm of the most important organisation seeking to overthrow the South African Government is a greying, bespectacled lawyer with three children who yearns to return home from exile and see his old friends.

"I will be 70 next year, but I feel quite young," he says, voicing guarded optimism that the often bloody battle against his country's recalcitrant white rulers will be won in his lifetime. Mr Tambo has no illusions about the difficulty of his task. "If it lasts one year — wonderful. It it lasts two years — good. But we are ready ultimately for a protracted struggle. The most we say is that victory is in sight."

"We consider," he adds quietly, "that between this moment and victory there is going to be a very, very bitter conflict, a great deal of destruction, destruction of lives. We are at the beginning of that process. I think it is going to be a very sad period."

The ANC itself is no more of an upstart than its leader. Founded in 1912—before the white National Party of President P. W. Botha—the multi-racial ANC grappled with apartheid for decades before it was outlawed and turned to violence a quarter of a century ago. It has been thrust into the limelight by the recent explosion of violence in South Africa's black township and by renewed international interest in the fate of the country, rich in gold and other minerals, which dominates the southern end of the continent.

Supplied with weapons by the Soviet Union and closely allied to and intertwined with the pro-Moscow South African Communist Party (SACP), the ANC has yet to convince the conservative governments of the Western world that its version of South Africa will be better than Mr Botha's—and better than the one-party states which abound in the rest of Africa.

The ANC for its part believes in a multi-party system, says Mr Tambo; but "if the people, may be over a period, feel the multi-party system is not working out, then it's for them to take the necessary decision." Whatever happens, though, racist parties will not be allowed.

"Tambo, Tambo," chant the children at the mass funerals of riot victims in South Africa's dusty townships, shouting in the same breath "viva communism" and "viva the spirit of Karl Marx." But the linkage is not appropriate. Although Mr Tambo presides over an ANC National Executive which includes a large number—perhaps over a third—of Communist Party members, he is not a communist. A devout Christian, he represents the more moderate, black nationalist element within the ANC.

So how important is the SACP, one of the most hard-line Communist parties in the world? As Mr Botha likes to point out, its membership has overlapped with that of the ANC since the party's formation in 1921, and its members sit on the ANC's ruling body, the National Executive Committee. They are undoubtedly influential, and their ultimate goal would surely not be the multi-party democracy or the mixed economy which Mr Tambo and his black nationalist colleagues advocate.

"I don't know what their future role is," says Mr Tambo. "This is something the party must decide. They are an independent body. They accept the Freedom Charter (the ANC's main policy document) and therefore accept the kind of South Africa the ANC envisages, and in a democratic South Africa they will press their policies democratically. They will continue to have their own objectives like everybody else. Then there will be other parties also."

Mr Tambo, certain of an ANC victory in a free general election, acknowledges that ANC members who also carry Communist Party cards could find themselves in a political quandary if the alliance breaks up and the two groups go their separate ways after such an election.

The Freedom Charter to which Mr Tambo refers, the foundation of the ANC's policies, is a document vague enough to satisfy the organisation's politically diverse supporters—and to worry businessmen and others who try to interpret it. Drawn up in 1955, it says that the nation's wealth will be restored to the people and the land redivided among those who work it. Mines and banks and "monopoly industry" will be nationalised. "There shall be houses, security and comfort," it says. "Rent and prices shall be lowered . . . and no one shall go hungry."

One after another, white South African politicians, businessmen and students have faced the wrath of Mr Botha's Government by trekking to Zambia, where the ANC has its headquarters, to seek guidance on this and other issues from Mr Tambo and his fellow ANC leaders. "In fact the Freedom Charter envisages a mixed economy," says Mr Tambo. "There will be partial nationalisation, which is nothing strange in South Africa. The state is very much involved in the economy already. The difference may be one of degree."

But he goes on to talk of the "vast wealth which is in the control of a few, as against the vast majority who have no access to that wealth. This gulf has got to be bridged by some methods. We have differed with the business community on this but they accept that the gulf has to be bridged.

"No government of a future South Africa could be sure of staying in power if it did nothing about these gaping differences." Nevertheless, the timing and the extent of nationalisation would be decided democratically. "We don't say it's going to happen the next day after we come into power. It won't be an issue for fighting. It can be an issue for debate."

Nationalisation may be the least of the problems facing a future black South African government. The armed forces and the civil service are dominated by whites, more specifically by Afrikaners, imbued with racism and taught to fear the *swart gevaar*, or black menace. Millions of blacks have been forcibly removed from their homes in the name of apartheid policies which allocated only 13 per cent of the land to over 70 per cent of the population.

White professionals and skilled workers have been leaving South Africa in droves for the security of Australia, Britain or the United States. "They will be welcome back," says Mr Tambo. But years of inequality in housing and education must be rectified.

"Sometimes," says Mr Tambo with a sigh as he considers the probable birth pangs of post-apartheid South Africa, "it is said that the experience of African countries becomes more difficult after independence than before. Before independence, you are all agreed, you are all united about what you want. As soon as it comes, you have got to relate to international problems, intense regional problems and internal problems which have become your legacy."

The ANC, of course, has more immediate tasks than plotting the course of a future South Africa. Despite a publicly stated policy of trying to avoid civilian casualties, ANC guerrillas have repeatedly killed innocent black and white South Africans with bombs in public places. Yet *Umkhonto we Sizwe* (Spear of the Nation), the military wing of the ANC, has little hope of mounting a serious armed challenge to Pretoria. And critics have questioned the ANC's ability to control what often appear to be spontaneous or locally organised outbreaks of violence in black townships, although it has a network inside the country and commands massive support among blacks.

Mr Tambo was once a teacher and he furrows his brow when asked about the value of school boycotts and the radical slogan "liberation before education." He is determined to overthrow the South African Government, if necessary by crippling the economy with international economic sanctions, by waging guerrilla warfare and by making the townships ungovernable. But Mr Tambo and the ANC are prepared to negotiate—about the transfer of power—and have not ruled out compromise solutions like the Lancaster House agreement which gave independence to Zimbabwe, while guaranteeing whites 20 seats in the 100-seat parliament for a limited period.

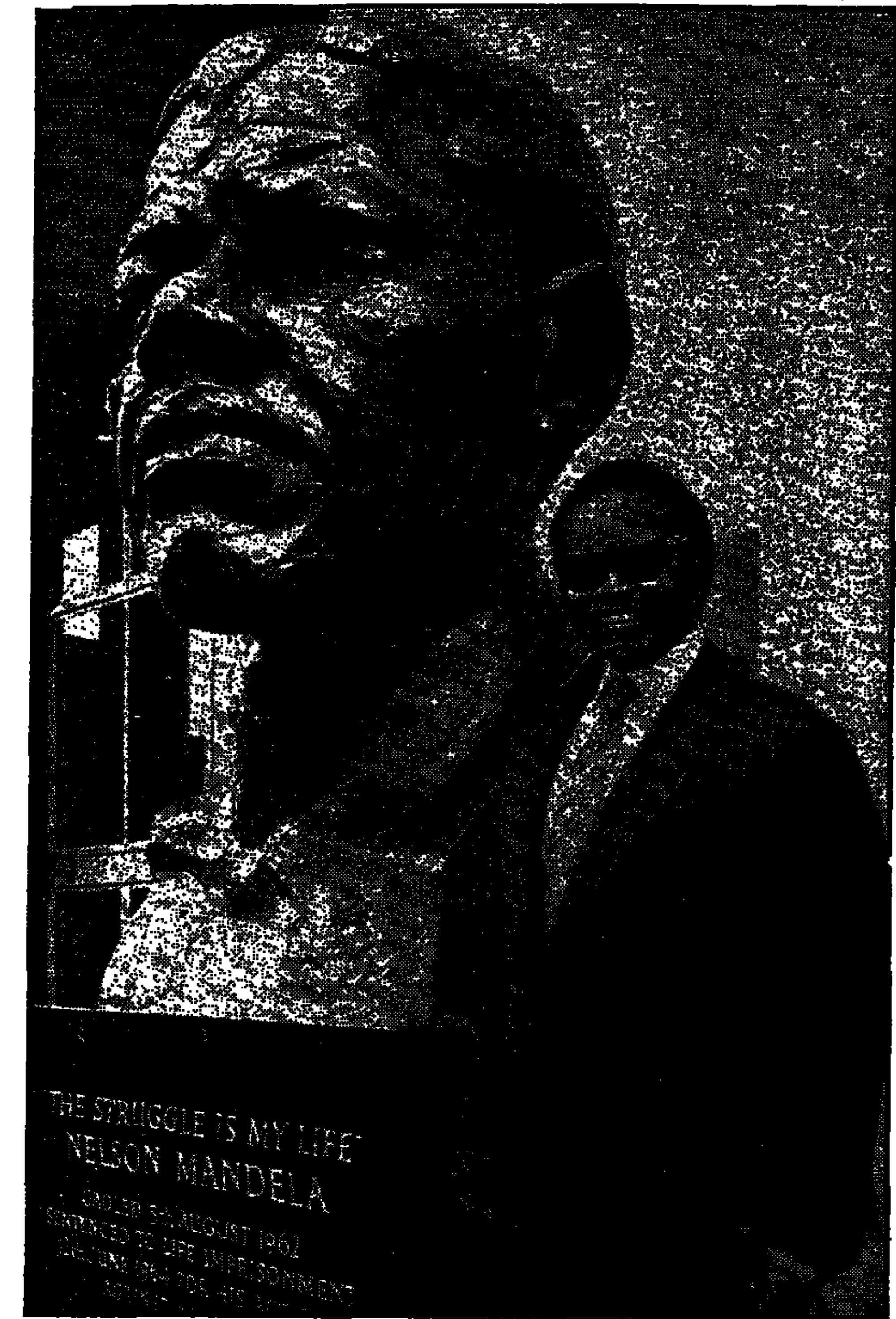
Looking further ahead, Mr Tambo hopes that black bitterness will not be so great as to inspire an urge to hunt down Mr Botha and his colleagues and punish them.

The jailed ANC leader Nelson Mandela—who was a partner with Mr Tambo in South Africa's first African legal firm and is a lifelong friend — and other political prisoners will be welcomed into the bosom of the ANC, he says. But conservative Zulu Chief Mangosuthu "Gatsha" Buthelezi—an old family friend of Mr Tambo and a former ANC member—is dismissed as a regional, not a national, leader.

"It's a very powerful dream," says Mr Tambo of his vision of the future, "because we want to see the opposite of what we are experiencing and what we have experienced.

"We envisage a society wherein everyone regards himself as a South African. We are Africans. We have been taught to distinguish between Africans and Europeans, between whites and blacks. We have been brought up as different types of animals which can't get along together.

"We want to be all Africans, to forget about the factor of skin colour, even race. For sure, we have got different racial and ethnic origins but those should enrich our society rather than ensure its conflicts. I think, when once the real South Africa as we want it begins to emerge, the process of mutual acceptance will be a short one."



Trevor Humphries

● Personal file

- 1917 Born in Eastern Pondoland in the Cape, son of a peasant farmer.
- 1941 BSc from the (black) University of Fort Hare.
- 1943 Joins the ANC.
- 1949 Becomes a member of ANC National Executive.
- 1952 Opens South Africa's first African legal firm, in partnership with life-long friend Nelson Mandela.
- 1954 Declared a "banned" person for two years.
- 1956 Charged with high treason along with other ANC leaders: charges later dropped. Accepted as candidate for priesthood of Anglican Church (an ambition he never fulfilled).
- 1959 Banned a second time, for five years.
- 1960 Flees South Africa to head ANC in exile.
- 1967 Becomes acting president, later president, of ANC.

The first shake-out will not be the last

By Barry Riley

THEY'RE OFF! At 9 o'clock this morning the London stock market will suddenly become a highly competitive place. Firms old and new, big and small, British and foreign, integrated or single capacity, will be slugging it out. The list of contenders could look significantly different in a year's time.

In the equity market the big firms can be divided into a number of categories. There are the established independent British-owned groups (and one or two foreign-owned but more or less autonomously run firms) which can be listed as Alexanders Laing and Cruickshank, James Capel, Cazenove, Greenwell Montagu, Hoare Govett, Hill Samuel/Wood Mackenzie, Kleinwort Grieveson, Phillips and Drew and Warburg Securities.

Another group consists of the commercial bank subsidiaries including Barclays de Zoete Wedd and County Securities (both British) and Scrimgeour Vickers and Chase Manhattan Securities (both American-owned). These face the worst of the culture clashes.

Then there are the American investment banks, of which Merrill Lynch and Goldman Sachs will be the most immediately prominent, together with L. Messel (now owned by Shearson Lehman).

Finally, various newcomers to the Stock Exchange broking scene must be reckoned with. Morgan Grenfell Securities and Robert Fleming have largely or wholly been built up from scratch. There is also Smith New Court, the only remaining sizeable jobber (with a claimed 25 per cent of the pre-Big Bang market) which must carve out a role in the new market place.

The opinion poll published in our City Revolution survey today gives some idea of the relative standing of some of the major contenders. James Capel is well in the lead as an agency broker. Phillips & Drew, Hoare Govett and Warburg Securities (including Rowe & Pitman and Akroyd & Smithers) are all highly regarded, in market making as well as agency broking. But Greenwell Montagu, County Securities, Wood Mackenzie and Messel could all find themselves struggling a little.

Of course, the new circumstances will be quite different from the old. James Capel is the star of the traditional system. It is seeking to capitalise on that status by continuing as an agency broker into the new era. But the stars of the new dual-capacity market have yet to emerge.

The Americans are the established experts at integrated trading (as well as, say, Robert Fleming, or Savory Milln, which has built up a major presence in Continental stocks).

Merrill Lynch is also a player in UK equities, and Salomon, Morgan Stanley and Drexel Burnham Lambert will all be member firms of the London exchange from today, though not all, as yet, as registered market makers. Generally they are a threat for the medium term rather than for this particular Monday morning.

Including the newcomers, the number of would-be major players in the London equity market has risen, offsetting the slight reduction caused by mergers such as Scrimgeour/Vickers da Costa and Laurie Milbank/Simon and Coates.

Yet logically the number should drop, because institutional investors now have an incentive to concentrate their custom. The new unofficial, commissions scale replacing the old, official, one is based upon the volume of commissions allocated to each individual broking firm. An annual figure of £250,000 allows funds to qualify for the finest flat rate of 0.2 per cent. At much below £100,000 of dedicated commission the institution could find itself paying 0.3 per cent; and perhaps subject to some awkward questions from directors or trustees.

Previously the commission paid was based only on the size of individual bargains and (with the slight complication of "continuation") there was no penalty for dealing with dozens of brokers.

The unknown factor is the extent to which firms will be able to make a living out of trading — that is, dealing in securities for their own account. But since the gross income of old jobbers was around £100m in the year to June 30, against the agency brokers' commission income of £738m (the figures come from the Stock Exchange's quality of markets survey published last week) there does not appear to be a lot of scope for squaring the circle.

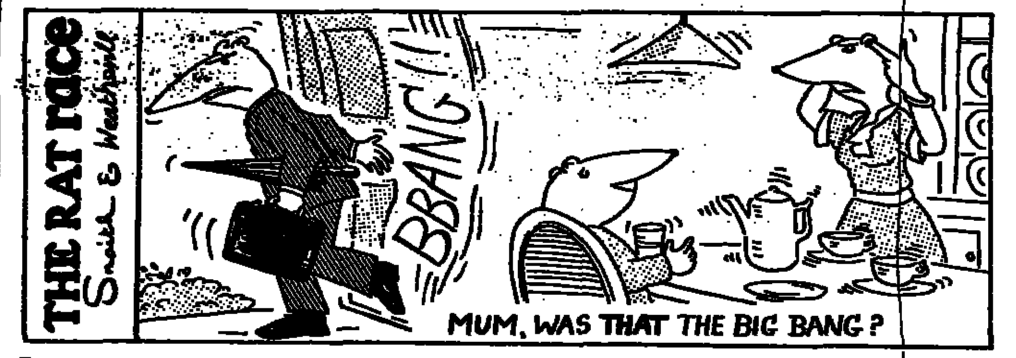
As for gilt-edged, where 27 market makers open for business this morning, the opinion poll reveals the highest reputations to be those of two of the former brokers which have now added market making capacity — Greenwell Montagu and Phillips and Drew — and the two former jobbers which have added broking capability, BZW and Warburg Securities.

However, Merrill Lynch has recently claimed a market share of around 9½ per cent, and while this may have been bought at a price (though Merrill denies it has made the huge losses alleged by the rumour-mongers) it is clear that the shape of the market will change fundamentally.

Already, fund managers rate Goldman Sachs above the likes of County Securities, Messel and Wood Mackenzie. From now on, gilts will be marketed continuously and intensively to an international clientele, aided by new techniques to hedge the currency risk.

Some of the market makers are going to be severely squeezed quite soon. But at the same time, new entrants are possible — either in a year's time, when the Bank of England opens the application list once again, or sooner if the opportunity comes to buy out a failing contender.

Several American and Japanese securities groups, even perhaps one or two German banks, are likely second round entrants, in pursuit of a stronger position in the global bond markets. So say hopes that the blood could cease to flow after an initial shake-out could prove premature. It is not only the initial 27 that will need to be sorted out, but also the underwriters waiting in the wings.



UK takeovers and US law

JUSTINIAN

BRITISH companies which seek to resist the blandishments of proposed takeover bidders have not infrequently in the recent past resorted to what is known as "the American gambit." This is a device whereby the targeted company takes legal proceedings in the US courts against the takeover bidder so as to alter, if not to frustrate the course of the takeover in the UK.

Two branches of American law — the anti-trust laws and the securities exchange laws — are apt instruments for invoking the assistance of the US courts, both because of their relevance to the subject matter of takeovers and to the adherence in the US to the developed doctrine of extraterritoriality. A decision of the US District Court for the District of Delaware, *The Plessey Company plc v. General Electric Company plc* (a report of which appears in a new publication, North American Commercial Law, a collection of decisions in the courts of the American continent with a direct concern to European lawyers)* provides a salutary lesson for those engaged in takeover bids.

Last December GEC issued a press release stating that it had proposed to Plessey "a combination of their two companies." Of the total shares in Plessey only 1.6 per cent were held in the US, but that sufficed to trigger off the rules of the US Securities Exchange Act (The Williams Act).

GEC had carefully couched its offer so as to exclude all American shareholders, whether merely resident in America or holding dollar shares or ADRs (American Depositary Receipts). It also adopted the cautious procedure of excluding North America and the American press from all publicity about the takeover.

The Williams Act, which requires anyone making a tender offer for any class of registered equity security to send certain information to the Securities and Exchange Commission, seeks to protect only those shareholders who face making a decision in response to the offer. The Act's requirements have not been interpreted to provide the management of the targeted company with advantages against hostile suitors.

While the Williams Act undoubtedly reaches beyond the shores of the US, particularly in relation to stock market fraud, the US courts have held that Congress had not intended to impose rules governing conduct throughout the world in every instance where an American might have an interest. But where was the dividing line between non-intervention and extraterritoriality?

The US District Court in the Plessey/GEC case held that the precautionary measures taken by GEC were both genuine and effective. As a result, the court dismissed Plessey's application to require GEC to comply with the provisions of the Williams Act. Thus a diversionary tactic by Plessey to ward off the takeover failed. The judgment of the court provides an important guide to potential take-over bidders whenever there are American shareholders who could be involved.

The most encouraging part of the court's judgment was its unwillingness to allow its jurisdiction to be invoked in a dispute that was essentially none of its business. The Williams Act declares a policy of neutrality, that is, neutrality between the offeror and the targeted shareholders in a takeover bid. The Act's requirement to lodge information before the bid would not become operative where the target company was engaged in turning to the US jurisdiction which the bidder had carefully avoided.

The US courts would not be dragged into a situation where one foreign company was able to impose on its hostile foreign bidder (both English companies) the obligations and requirements of American law, thereby gaining for itself additional time for other defensive tactics, simply because the bidder had mailed details of the offer to an interested American, or by arranging a press release in the US.

The precise language of the court is instructive. It said: "We caution that the preceding discussion is not intended to suggest that news reports of foreign transactions in the American media can never be a sufficient use of the jurisdictional means of the Williams Act. It is intended only as a commentary on the facts we have before us today. On the one hand, we have a British bidder who seeks the Ordinary shares of a British target through an offer carefully structured to avoid the channels of American commerce. We have, in addition, the fact that 98.4 per cent of the target's potential voting shares are in hands not belonging to Americans, ie, the American shares will have almost no impact on the outcome of the contest even if they are tendered; and we have evidence that GEC has complied with all aspects of British takeover practice.

"To suggest that it excluded the American media from its December 9 press conference in the hope of provoking interest in America appears highly improbable. GEC would have little to gain from it in their fight for Plessey but much to lose in becoming entangled in American law and regulation. On the other hand, we have Plessey, a British target who invokes the protection of the Williams Act not, it says, to stop the tender offer but rather to compel disclosure to its ADR holders of the terms of the offer it has already characterised as inadequate and ill-advised. It is at least possible that Plessey's efforts in this litigation are motivated by a desire more to delay than to inform, more to gain an advantage than to preserve neutrality." The court concluded that it would be a perversion of the principles of the Williams Act to delay the processes of a "quintessentially British takeover when American investors and interests are but barely touched."

**The case is cited as [1986] NACL 93. The publishers are The European Law Centre.*

NOTICE OF REDEMPTION
TO THE HOLDERS OF

PANCANADIAN PETROLEUM LIMITED
(PanCanadian)

Can$65,000,000 16½% Debentures due 1988
(the Debentures)

NOTICE IS HEREBY GIVEN that in accordance with the Terms and Conditions of the Debentures PanCanadian has elected to redeem all of the Debentures on 15th December, 1986, (the Redemption Date) at 101 per cent of their Principal amount. Interest will cease to accrue on the Redemption Date.

Payment of the Redemption proceeds (Can$1,010.00 per Debenture) will be made against presentation and surrender of the Debentures cum Coupon due 15th December, 1987, and subsequent attached, at any of the Paying Agents listed below. In the event that Debentures are presented with un-matured Coupons missing the face value of each Coupon, Can$165.00, will be deducted from the Redemption proceeds.

PAYING AGENTS

The Royal Bank of Canada, Royal Bank Plaza, Toronto, Canada M5J 1J5 (Principal Paying Agent)

The Royal Bank of Canada AG, Bockenheimer Landstrasse 1, D-6000 Frankfurt, Federal Republic of Germany

Orion Royal Bank Limited, 1 London Wall, London EC2Y 5JX

The Royal Bank of Canada (France) S.A., 3 rue Scribe, 75440 Paris

The Royal Bank of Canada (Belgium) S.A., rue de Ligne 1, B-1000 Brussels, Belgium

Banque Internationale à Luxembourg, 2 Boulevard Royal, Luxembourg Ville, Luxembourg

Coupons which mature on and prior to the Redemption Date should be detached and presented for payment in the normal fashion.

DATED: LONDON, 27th October, 1986
For and on behalf of
PanCanadian Petroleum Limited

By: ORION ROYAL BANK LIMITED
A member of The Royal Bank of Canada Group

PRIVREDNA BANKA ZAGREB

FLOATING RATE NOTES DUE 1986

In accordance with the conditions of the Notes, notice is hereby given that for the period 27 October 1986 to 25 November 1986 (29 days) the Notes will carry an interest rate of 8%.

Relevant interest payments will be as follows:
Notes of US$1,000 US$6.44 per coupon

CREDIT LYONNAIS (London Branch)
Agent Bank

GRANADA · HTV · LWT · SCOTTISH · THAMES · TSW · TV-AM · TVS · TYNE TEES · ULSTER · YORKSHIRE

ANGLIA · BORDER · CENTRAL · CHANNEL · GRAMPIAN

CITY

From today, opportunity knocks.

ITV AND CHANNEL 4 THE BEST VALUE TV IN THE WORLD.

Anglo-French water services company

CEMENTATION-SAUR Water Services, the recently formed Trafalgar House-Bouygues joint company, has appointed its board. Mr John Stansby of UIE (UK) has been appointed chairman. Mr Vincent Grundy, Mr John Fletcher and Mr Barry Myers of Trafalgar House Construction Holdings, and Mr Jean Marie Cousin and Mr Patrice Rancon of SAUR (UK) have all been appointed directors. Mr Eric Machell, formerly with Cementation International, becomes commercial and marketing director and Mr Gerard Boulle, formerly a regional director of SAUR in France, becomes technical and operations director. The Anglo-French company will provide a turnkey capability in the provision of water and effluent treatment plants.

★

C. E. HEATH GROUP has made the following appointments: at C. E. Heath & Co (Aviation) Mr R. K. Pitt, assistant director; C. E. Heath & Co (Aviation Reinsurance Broking) Mr Pitt, assistant director; C. E. Heath & Co (International) Mr M. N. Harvey and Mr A. G. Needham, additional directors, Mr S. R. H. Rice, associate director, and Mr J. O. N. Terndrup, assistant director; C. E. Heath & Co (Lancashire) Mr C. F. Caine, assistant director; C. E. Heath & Co (Latin America) Mr Rice, associate director; C. E. Heath & Co (North America) Mr D. P. Neilson, assistant director.

★

TWYFORD MOORS AEROSPACE, formerly Twyford Moors (Aircraft and Engineering), is now headed by chairman Air Marshal Sir Peter Horsley. The new managing director and chief executive is Mr B. C. (Ben) Chilcott. Other non-executive directors are Mr C. P. B. Horsley and Mr R. G. Anniss who are board members of TMA's new owners, CRC Group.

★

Mr Colin Boulter has been appointed financial controller of RHP Precision, Newark, a division of RHP GROUP. He was divisional accountant for RHP Industrial Bearings.

★

Mr Anthony N. Simkin, a group finance executive at British Caledonian Group, has been appointed finance director of COMBINED LEASE FINANCE. He takes up his duties later this year from Mr Glyn Jenkins, who has resigned for personal reasons.

★

Mr C. G. Erwin has been appointed investment director of LIBERTY LIFE ASSURANCE. He joins from County Investment Management (owned by the National Westminster Investment Bank) where he was a director responsible for managing the investments of a number of large UK pension funds.

★

Mr John Gillam has been appointed a non-executive director of SKETCHLEY. He is a director of N. M. Rothschild and Sons. Mr Geoffrey Maddrell and Mr Eric Colwell, non-executive directors of Sketchley, have resigned.

★

Mr Roger Rosewick has been appointed secretary of Abaco Investments.

★

Mr David H. Plumer, has been appointed managing director of SOUTHERN PORT SERVICES, a subsidiary of Faber Prest Holdings, a Rotherham industrial group, which operates port services at Shoreham, Newhaven and Littlehampton.

★

CAMBRIDGE LIFE SCIENCES has appointed Dr Arnold Worlock as a non-executive director. Dr Worlock was, with Wellcome Foundation where he was group marketing director, a member of the main board and chairman of Wellcome Diagnostics. Prior to this he was chairman of Hoechst Pharmaceuticals.

Moorgate Group's US president

THE MOORGATE GROUP has appointed Dr Joanne Rypp-Firstenberg as president and chief executive officer of its American subsidiary, The Moorgate Group, Inc. As well as running her own financial consultancy, she has held senior posts at Coopers & Lybrand, Chase Manhattan Bank, AT & T and Citibank. The group has sold her a 25 per cent holding in the equity of The Moorgate Group, Inc. Her expertise will also be available to the board of The Moorgate Group in London, and it is expected that she will be appointed a director of the parent company in the near future.

Dr Joanne Rypp-Firstenberg, president of the Moorgate Group, Inc

★

Mr Ronald George Hanna has joined the board of ST ANDREW TRUST. He is financial director of Cala. St Andrew Trust is managed by Martin Currie Investment Management in Edinburgh.

★

Mr John H. Bancroft corporate finance manager with the P & O Group has been appointed financial director of BAINE INDUSTRIES.

VITAL TECHNOLOGIES:

Sometimes basic, sometimes sophisticated ...but always indispensable.

It takes tremendous force to lift and land a jumbo jet or to move an aircraft carrier into dock. And it takes precise control to do it safely. The products needed to achieve this control may require advancing the state of the art, while others are less complex.

That same interdependent relationship between power and control exists wherever modern technology exists... on military bases, in hospitals, manufacturing plants and more.

Parker provides the vital technologies that harness and take command of force and motion. The most vital technology in the world involves controlling force and motion and it is involved in everything from your personal health to your country's security.

Innovation in motion

Virtually everywhere you look, Parker's innovative parts, components, and systems are getting things moving and getting things done — by providing control of force and motion.

"Parker products are at the heart of vital technologies, performing essential tasks throughout the world."

Paul Schloemer
President and
Chief Executive Officer.

Meeting today's needs

Parker Hannifin is a broadly based, $1.7-billion dollar organization which supplies 1,000 diverse markets with a vast array of products to control pressure, force, and motion. Parker has the size and scope to satisfy the quality and volume requirements of major customers worldwide.

It's no wonder then, that industry around the world and the U.S. Defense Department routinely turn to Parker when specifications call for vital technology. The company has played an important role in everything from cars to space vehicles.

Parker's advanced microstep technology will enable automation equipment to take on more exacting tasks.

But Parker has an even more immediate impact on your life. Whenever you travel in a commercial aircraft, for instance — Parker products are aboard every plane now flying in the free world. Parker products also ride in passenger, agricultural, and military vehicles... they take to the water in ships and submarines... they work on production lines in factories around the world... and they're an integral part of many advanced diagnostic and treatment devices used in health care today.

Parker's highly reliable, ballistically tolerant flight control actuators are aboard the Apache attack helicopter.

Planning for tomorrow's needs

Vital technology is *many* things — it evolves and changes as new applications emerge. Remaining responsive to new applications in the marketplace is one of Parker's top priorities.

Supporting that priority are the company's R&D activities. Electro-hydraulics, fiber optics, load-sensing hydraulic systems, micro-electronics, and biomedical instrumentation; all these are areas of intense research at Parker — and, already, they're paying off. Technology transfer helps speed Parker's progress, too, as the technological know-how acquired in aerospace projects is applied to industrial and biomedical markets.

Growing better every day

Parker is number 1, 2, or 3 in 133 of its product lines. The company's acquisition strategy focuses on continuing that leadership. The goal: to gain entry to new and related markets, to round out product lines, and to further penetrate existing markets.

Compumotor is a good example of this strategy at work. This recently acquired company specializes in the production of microprocessor-based controls for motion-control applications. Compumotor's unique microstep technology enables certain kinds of motors to make as many as 50,000 individual stops in one revolution (this, in turn, enables simple automated equipment to take on exacting tasks).

Other examples? Schrader Bellows, an international maker of pneumatically controlled devices used throughout industry. Metal Bellows, producer of a top-quality line of precision-welded bellows and pumps for aerospace and other high tech applications. Racor and Finite Filter significantly improve Parker's position in the fast growing fluid filter business.

These companies are typical of the kinds of organizations Parker seeks out: they have a history of technological competency, cost-effective production, outstanding management, and healthy market position.

A result of vital technology...the smallest, lightest ambulatory infusion pump ever created.

As you can see, Parker believes in growing not just larger, but *better* — so today's customers will be customers tomorrow, too.

For more information, write Parker Hannifin Corporation, Dept. T-1, 17325 Euclid Avenue, Cleveland, Ohio 44112-1290.

Parker

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Dealing with a reputation for innovation in telecommunications

The rapid expansion in financial services has created an increasing demand for advanced telecommunication solutions.

Wyatt's with over 50 years' experience in supplying telecommunications technology to the financial and trading centres of the world, provide telecommunications systems that are actually designed for change.

Totally adaptable, our revolutionary **8001 Series** dealer panels are designed to deal with the constant changes encountered in all busy dealing rooms.

Unparalleled in its flexibility, our unique system enables each position to be reprogrammed to suit individual dealers' needs, and by the use of a plug and socket, relocation is made simple.

So if you are looking for a solution to your telecommunications problem.......call Wyatt's, the company with a reputation for innovation.

Wyatts
A REUTER COMPANY

50 Canbury Park Road, Kingston-upon-Thames, Surrey KT2 6JZ
Telephone: 01-549 5727 Telex: 934748 Facsimile No: 01-549 1470

NOTICE OF REDEMPTION

CITY OF OSLO

KD 10,000,000 7¾ PER CENT BONDS DUE 1990
REDEMPTION DATE: DECEMBER 15, 1986
REDEMPTION PRICE: 100½% OF PRINCIPAL AMOUNT

NOTICE IS HEREBY GIVEN to the holders of the 7¾ per cent bonds due December 15th 1990 of city of Oslo that pursuant to the condition 5 (B) of the bonds city of Oslo has elected to redeem all the outstanding bonds on December 15th 1986 at a redemption price of 100½ per cent of the principal amount thereof. Payment of redemption proceeds together with accrued interest will be made on or after the redemption date upon presentation and surrender of the bonds together with all coupons appertaining thereto maturing after the redemption date failing which the amount of the missing coupons will be deducted from the sum due for payment, the amount so deducted being payable upon presentation of the missing coupons at the office of any one of the paying agents set forth below:

The bonds will no longer be outstanding after the redemption date. The bonds will cease to accrue interest from December 15th 1986.

Fiscal Agent and Principal Paying Agent
KUWAIT INTERNATIONAL INVESTMENT CO. s.a.k.
Al Salhiya Commercial Complex
Gate No. 1 + 8, 5th Floor, Block No. 1
P.O. Box 22792, Safat. 13088 Kuwait

Paying Agents

Kredietbank S.A. Luxembourgeoise
43, Boulevard Royal
Luxembourg

Merrill Lynch International Bank Limited
Merrill Lynch House
3 Newgate Street
London EC1A 7DA England

Morgan Guaranty Trust Co of New York
35 Avenue des Arts
1040 Brussels, Belgium

by
Kuwait International Investment Co. s.a.k.
(FISCAL AGENT)

National Westminster Bank PLC

NatWest announces that with effect from Monday, 27th October, 1986, its Branch Standard Rate is increased from 24% to 25%

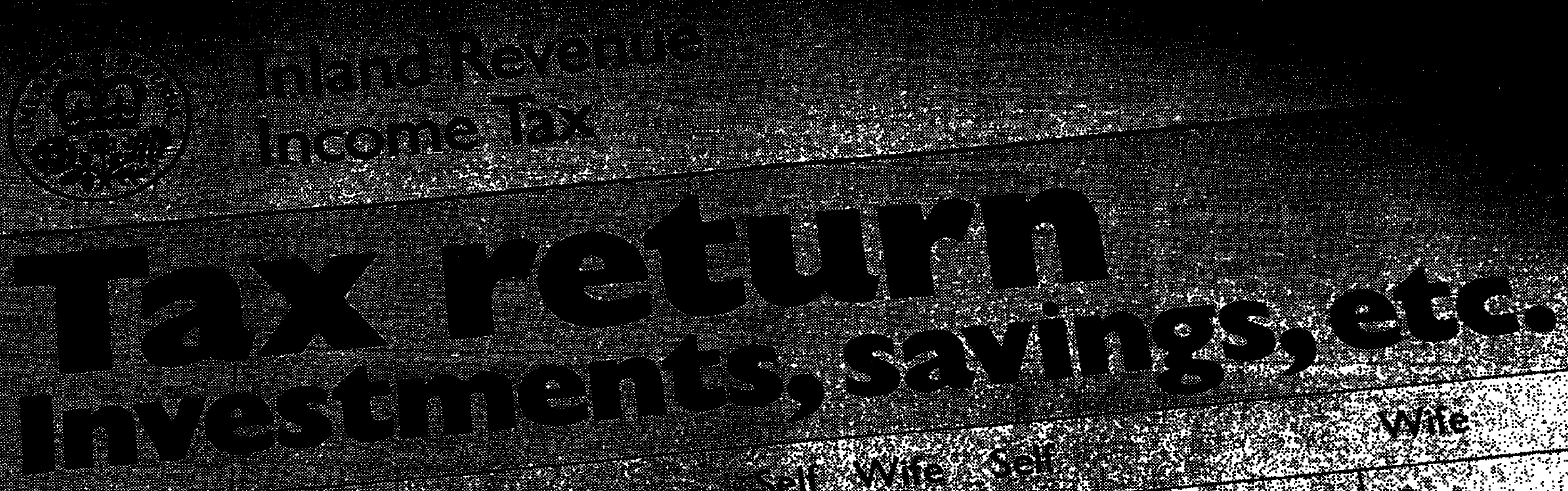
(Branch Standard Rate is charged on borrowings arising without arrangement. Any such borrowings regulated by the Consumer Credit Act 1974 are also varied accordingly.)

41 Lothbury London EC2P 2BP

BASE LENDING RATES

	%		%		%
ABN Bank	11	Citibank NA	11	● Morgan Grenfell	11
Adam & Company	11	Citibank Savings	¶10.95	Mount Credit Corp. Ltd	11
Allied Arab Bk Ltd	11	City Merchants Bank	11	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	Clydesdale Bank	11	National Girobank	11
Allied Irish Bank	11	Comm. Bk. N. East	11	Nat Westminster	11
American Exp. Bk	11	Consolidated Crd.	11	Northern Bank Ltd	11
Amro Bank	11	Co-operative Bank	*11	Norwich Gen. Trust	11
Henry Ansbacher	11	Cyprus Popular Bk	11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Duncan Lawrie	11	Provincial Trust Ltd	12
Associates Cap Corp	10	E. T. Trust	12	R. Raphael & Sons	11
Banco de Bilbao	11	Equatorial Tst C'p plc	11	Roxburghe G'rantee	11
Bank Hapoalim	11	Exeter Trust Ltd	11½	Royal Bk of Scotland	11
Bank Leumi (UK)	11	Financial & Gen. Sec.	11	Royal Tst Co Canada	11
Bank Credit & Comm	11	First Nat. Fin. Corp	11	Standard Chartered	11
Bank of Cyprus	11	First Nat. Sec. Ltd	11	Trustee Savings Bank	11
Bank of Ireland	11	● Robert Fleming & Co	11	UDT Mortgage Exp.	¶10.9
Bank of India	11	Robert Fraser & Ptrs	12	United Bk of Kuwait	11
Bank of Scotland	11	Grindlays Bank	‡11	United Mizrahi Bank	11
Banque Belge Ltd	11	● Guinness Mahon	11	Westpac B'nking Corp	11
Barclays Bank	11	HFC Trust & Savings	11	Whiteaway Laidlaw	11½
Benchmark Tst Ltd	11	● Hambro Bank	11	Yorkshire Bank	11
Beneficial Trust Ltd	11	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
Brown Shipley	11	Hongkong & Shangh'	11		
CL Bank Nederland	11	Knowsley & Co. Ltd	11½		
Canada Permanent	11	Lloyds Bank	11		
Cayzer Ltd	11	Mase Westpac Ltd	11		
Cedar Holdings	12	Meghraj & Sons Ltd	11		
Charterhouse Bank	11	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 6.69%. 1-month 7.05%. Top Tier—£2,500+ at 3 months' notice 9.72%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¾% gross. ¶ Mortgage base rate. § Demand deposit 6.69%. Mortgage 11%.



NOTHING TO DECLARE.

Can you think of a good reason for paying more tax than you need to?

A remarkable number of sophisticated investors pay more tax than they need, simply because they haven't taken full advantage of the range of nothing-to-declare investments offered by National Savings.

These investments are completely exempt from U.K. Income Tax at all levels, and they are also free of Capital Gains Tax. You don't even have to declare them on your tax form.

So how tax-efficient is your portfolio?

Do your investments, for example, include the current 31st Issue of National Savings Certificates? These give you a tax-free return of 7·85% pa, guaranteed over a full five years. The maximum holding has just been doubled to £10,000. You may invest up to this amount in addition to previous issues of Certificates you have already.

At the same time, you can invest up to £5,000 in tax-free Index-linked Certificates. The new 4th Issue gives you Extra Interest of 4% pa, guaranteed over a full five years, on top of inflation-proofing.

In addition, you can subscribe up to £200 a month to Yearly Plan, which yields fixed and tax-free returns at rates notified to you annually. The guaranteed rate currently on offer is 8·19% pa, over five years. Monthly payments are simple to make by standing order and you can stop when it suits you.

All three of these investments have the added benefit of interest rates that are guaranteed over a full five years, whatever happens to rates elsewhere.

And remember, everyone in your family has a separate entitlement to their own holding of tax-free National Savings investments.

Application forms and leaflets giving interest rate details for all three products are available at post offices. The two current Issues of Savings Certificates can also be bought through your bank. Or if you prefer you can fill in the coupon or telephone free on 0800 100 100 (24-hour service) and we will send you a comprehensive information pack on tax-free National Savings investments, including a copy of our book 'Investing in National Savings.'

It's worth doing now, because the longer you delay, the longer you could be paying more tax than you need.

To National Savings, FREEPOST, 4335, Bristol BS1 3YX.

Name

Address

Postcode

DIARY DATES

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Abaco Inv, Salters' Hall, Fore Street, EC, 12.00
GT Japan Inv Trust, 8 Devonshire Square, EC, 12.30
Murray Inc Trust, 163 Hope Street, Glasgow, 10.30

BOARD MEETINGS—
Finals:
Allied London Properties
Burgess Products
Ensign Trust
Klark-Teknik
Interims:
Value and Inc Tst
Vanbrugh Currency Fund
Viking Resources Tst
Waverley Cameron

DIVIDEND & INTEREST PAYMENTS—
AGB Research 4p
Antofagasta Hldgs 1.25p
Bodingtons Breweries 1.47p
Cadbury Schweppes 1.8p
Coro (India) Equity RU1.6
Do 7½pcCmPf RU0.75
Camellia Invs 6p
Exchequer 13¼pc 1994 6⅝pc
Do 15pc 1997 7½pc
Highlands and Lowlands Berhad 0.39735p
Hyman 0.75p
Inch Kenneth Kajang Rubber 8p
Ladbroke Group 5.5p
NZI O'seas Finance NY 10½pcCnvBds 1994 5¼pc
National Westminster Finance Gtd Fltg Rate Cap Nts 1992 $179.86
Toronto-Dominion Bank 21cts

TOMORROW

COMPANY MEETINGS—
Apex Prop, 243/247 Pavilion Road, Sloane Square, SW, 12.00
Benchmark Group, Baltic Exchange, 14/20 St Mary Axe, EC, 5.00
Fobel Intnl, Eastgate House, 28/34 Church Street, Dunstable, 11.00
Haynes Publishing Group, The Conference Centre, Sparkford Motor Museum, North Yeovil, Somerset, 12.00
Herrburger Brooks, Meadow Lane, Long Eaton, Nottingham, 12.00
Palmerston Inv Trust, The Connaught Rooms, Great Queen Street, WC, 10.30
Ricardo Consulting Eng, St Ermin's Hotel, Caxton Street, SW, 12.00

BOARD MEETINGS—
Finals:
British Car Auction
Chesterfield Properties
Frogmore Estates
National Home Loans
Wolseley
Interims:
Chepstow Racecourse
Hille Ergonom
Marks and Spencer
NEC
Top Value

DIVIDEND & INTEREST PAYMENTS—
Allied Irish Banks Subord Prim Cap Perp $172.08
Bank Leumi (UK) 3.9p
Canadian Imperial Bank 27cts
Canadian Pacific 12cts
Dickie (James) 0.5p
Goodhead Print Group 2p
PSM International 3.55p

WEDNESDAY OCTOBER 29

COMPANY MEETINGS—
ASDA-MFI, Pudsey Civic Centre, Pudsey, Leeds, 2.30
Dunton Group, 130 High Street, Chesham, Bucks, 10.30
Gabicci, The Confederation of British Industry, Centre Point, 103 New Oxford Street, W, 11.00
Milford Docks, The Great Western Royal Hotel, Praed Street, Paddington, W, 12.00
Watsham's, 29 Chesham Place, SW, 12.00

BOARD MEETINGS—
Finals:
Japan Assets Trust
Low (William)
Next
Interims:
Channel Tunnel Inv
Cohen (A.)
FR
Fridax Agricultural Inds
Globe Inv Tst
Henderson Group
House Property Co of London
Lilley (F. J. C.)
Nimslo Intnl
Southend Stadium
Tesco

DIVIDEND & INTEREST PAYMENTS—
Bank of Montreal Fltg Rate Debs Ser 9 1996 $172.3
British Col Hydro and Power Auth 16¼pc Nts Ser 1988 8⅛pc
Candover Inv 2p
Desoutter Bros 2.5p
Exchequer 14pc 1986 7pc
Grupo Industrial Saltillo $A Fltg Rate Nts 1988 $228.75
Nichols (J. N.) (Vimto) 2.9p
Palmerston Inv Trust 4p
Sunlight Service Group 3.5p
Watsham's 2.4p

THURSDAY OCTOBER 30

COMPANY MEETINGS—
Blanchards, The Basil Hotel, Basil Street, SW, 11.00
Central and Sheerwood, 62 Horseferry Rd, SW, 11.00
City of Aberdeen Land Assoc, The Royal Northern Club, 9 Albyn Place, Aberdeen, 9.45
Continental Microwave, 1 Crawley Green Road, Luton, Bedfordshire, 12.00
Dom Hldgs, Great Eastern Hotel, Liverpool Street, EC, 12.00
Dowding and Mills, Chamber of Commerce, 75 Harborne Road, Birmingham, 12.00
Dura Mill, Midway Hotel, Manchester Rd, Rochdale, 12.00
Lee Intl, The Old House, Shepperton Studios, Studio Road, Shepperton, Middlesex, 12.00
Saville Gordon (J.), Midland Hotel, New Street, Birmingham, 12.00
Tor Inv Trust, 6 Caer Street, Swansea, 9.45

BOARD MEETINGS—
Finals:
Piccadilly Radio
Smart (J.) (Contractors)
Interims:
A. and M.
Airflow Streamlines
Boot (Henry)
Capital Gearing Trust
Clarkson (Horace)
CapitausTinaleG rrt
Coates Bros
Ellis and Goldstein
Harris Queensway
Lep
Pavion Intnl
Portsmouth and Sunderland Newspapers
Redland

DIVIDEND & INTEREST PAYMENTS—
AGA Aktiebolag 9¼pc Cm Sub Bds 1996 4⅝pc
APV Hldgs 7p
ASDA-MFI Group 1.9p
Assoc Book Publishers 2.25p
Fitch Design Consultants 2.2p
GT Japan Inv Trust 1p
Jacobs (John I.) 1.4p
Nova Scotia (Province of) 16¾pcLn 2011 8⅜pc
Schroders 3p
Do Non-Vtg 3p
Wates City of London Prop 0.77p

FRIDAY OCTOBER 31

COMPANY MEETINGS—
AC Hldgs, Rectory House, 7a Laurence Pountney Hill, EC, 12.00
American Electronic Components, The Connaught Rooms, 61-65 Great Queen Street, WC, 12.00
DSC, Savory Milln Ltd, New City Court, 20, St Thomas Street, SE, 10.30
Green (E.), The Connaught Rooms, 61-65, Gt Queen Street, WC, 12.00
MAI, The Glaziers Hall, 9 Montague Close, London Bridge, SE, 12.00
Meat Trade Suppliers, 62-68, St John Street, EC, 12.00
Parker Knoll, Berners Hotel, Berners St, W, 12.30
Star Computer Group, 64, Great Eastern Street, EC, 10.00

BOARD MEETINGS—
Finals:
Celtic Haven
Interims:
Arbuthnot Yen Bond Fund
Boosey and Hawkes
Eastern Produce
Henara
Lancs
TR Ind and Gen Tst

DIVIDEND & INTEREST PAYMENTS
Alexon Grp 5pcPrf 1.75p
Armour Trst 10½pcLn 1991-96 5¼pc
Aurora 0.5p
Automated Sec 8pcLn 1990-95 4pc
Babcock Ind Elec Prod 7¼pcDb 1985-90 3⅝pc
Barrington Prpty Grp 6¾pcDb 1983-88 3⅜pc
Bk Nova Scotia Dbs (1995) $160.49. Dbs (2000) £254.86
Bankers Inv Trst 10½pcDb (2016) 1.89p
Barker (C) 1p
Barlow Rand 6pcPrf 6cts
Batleys 10pcPrf 5p
Blackwood Hodge 6pcPrf 2.1p
Blundell-Permoglaze Hldgs 6¾pcDb 1981-86 3⅜pc. 7¼pcLn 1990-95 3⅝pc
Bosse Massimi Pollitt 1.75p
Breedon Cloud Hill Lime Works 3.25p
Brit-Amer Tobacco 6pcPrf 2.1p
Brit Mohair Hldgs 1.25p
Brixton Estate 6½pcDb 3¼pc
Brown Tawse Grp 7pcPrf 2.45p
Burgess Prod 6pcPrf 2.1p
Burmah Oil 6pcPrf 2.1p. 6pc2ndPrf 2.1p. 7¼pcPrf 2.5375p. 8pcPrf 2.8p
CVD Inc 2.7cts
Campbell Soup 33cts
Cantors 7½pcPrf (£1) 2.625p
Cap Counties 8½pcLn 1999-04 4¼pc
Chem New York (1999) $53.82
Chemring Grp Prf 3p. 4.9pcPrf 2.45p
Citicorp Banking Corp GtdFltgRateSubord CapNts $172.5. GtdFltgRateSubordCapNts 30/1/97 $172.5
City of Aberdeen Land Ass 12.5pa
Clark (Mat) Hldgs 7pcPf 2.45pa
Clifton-Pena Intnl 6½pcDb 1985-90 3¼pc. 7½pc2ndDb 1986-91 3¾pc
Conrad Hldgs 1pa
Cons Plant Berhad 8sen5M
Cookson Grp 7pcPf 1.22pa
Corning 7pcDb 1971-96 2.333pc
Cowan, de Groot 10½pcPf 5.25pa
Crouch (Derek) 2.0175pa
Crowther (J. E.) (Hldgs) 5¼pcPf 1.925p
DSC Hldgs 0.5p
Datron Intnl 1p
Debfor Hldgs 0.8p
Dundee & London Inv Tst 5pcPf 1.75p
Egoli Con Mines 5cts
El Oro Mining & Exp 4.615p
Electron House 2p
Ellis & Everard 7¼pcDb 1987-92 3⅝pc
Eng Elec 6¼pcDb 1984-89 3⅛pc
Eng Ppty 9⅞pcDb 1997-2002 4.9375pc
Estates Ppty Inv 6pcDb 1983-87 3pc. 7¼pc Ln 1989-92 3⅝pc. 10pcDb (2011) 5.096p
Estates Ppty Inv 5.5p
Evans Leeds 11pcDb (2025) 5½pc
Exploration 2.3075p
FC Pacific Inv Trst 0.6p
Finland (Rep) (1990) $338.52
First Leisure Corp 2.5p
First Nat Fin 10pcLn (1992) 5pc
Fisons 6½pcDb 1984-89 3¼pc
Foreign Col Inv Trst 7pcLn 1988-93 3½pc
Guildhall Ppty 6pcPrf (£1) 2.1p
Hawley Grp Prf 19.75p
Haynds Pub Grp 9p
Heavitree Brwy 11½pcPrf 5.75p
Heinz (HJ) 4½pcPrf (1990) 1.575p
Heywood Williams Grp 8pcPrf 1.4p
Howden Grp 7¾pcDb 1986-91 3⅞pc. 8¼pcDb 1986-91 4⅛pc
Hudson's Bay Co 15cts
Huntleigh Tech 0.5p
Imp Foods 6¾pcDb 1985-90 3⅜pc
Imp Grp 6.9pcLn 2004-09 3.45pc. 7.5pc Ln 2004-09 3.75pc. 10.5pcLn 1990-95 5.25pc
Intereurope Tech Services 4p
Invergordon Distillers 1.5p
Islington Corp 12¾pcRd 1985-87 6⅜pc
Italy (Rep) $53.82
Jackson (W) 7½pcPrf 2.625p
Johnson Jorgensen Pack 1.35p
Johnson Matthey 8½pcDb 1985-88 4¼pc
Kleinwort Benson Eurobond Prf 67.65p
Laing (J) 2.5p. A.Non.V 2.5p
Studios Road, Shepperton, Middlesex
Land Secs 6pcDb 1988-93 3pc. 7¼pcDb 1991-96 3⅝pc
Latham (J) 8pcPrf 4p
Lee Intnl 1.5p
Lodge Care 7½pcPf 1981-86 3.98675pc
London & Scottish Marine Oil Oil Production 22.2301p
London Intntl Gp 8pcLn 1990-95 4pc
London Merchant Securities 1.8p
London Shop Prop Tst 3.85pcPf 1.925p. 10pcDb 1.8375pc. 11.625pcDb 2016 5.8125pc. 12.5pcDb 2015-20 6.25pc. 9pcLn 1994-99 4½pc. 8.25pcLn 1999-2004 6.44pc
London Tst 4pcDb 2pc. 3½pcDb 1¾pc. 5½pcDb 1983-88 2¾pc
Lowe (Robert H.) 6½pcPf 2.275p
Lowe's Companies Inc 10cts
Lyon and Lyon 1.5p
Macarthys (London) 7½pcLn 1986-91 3¾pc. 7¾pcLn 1986-91 3⅞pc
Mahomet Hldgs 1p
Marks and Spencer 10pcPf 3.5p
Marley 6¼pcDb 3⅛pc
Massey-Ferguson Hldgs 7½pcDb 1987-92 3¾pc
Matthews (Bernard) 1.25p
McAlpine (Alfred) 9pcPf 4.5p
Media Technology Intntl 1.8p
Mellerware Intntl 1.1p
Metal Closures Gp 6pcPf 2.1p
Metalrax Gp 0.73p
Miller, Rayner and Haysom 10pcPf 1.3125p
Myson Gp 1.82p
New Cavendish Estates 1.2p
Newarthill 8¼pcPf 2.8875p
Norfolk Capital Gp 0.125p
North (James) Ln 1987-92 3¾pc
Nurdin and Peacock 2p
Octopus Publishing Gp 2.7p
Oliver (George) (Footwear) 1.98p. A 1.98p
PWH Gp Inc 26cts
Parkfield Gp 7pcPf 3.5p
Peel Hldgs 10pcPf 2.5p. 9⅝pcDb 2011 4.229pc
Photax (London) 11pcPf 5.5p
Plessey Connectors 7¼pcDb 1985-90 3⅝pc
Portsmouth and Sunderland Newspapers 8pcPf 2.8p. 10.5pcPf 5.25p
Racal Electronics 7pcLn 2009-14 3½pc
Rank Organisation 10⅜pcLn 1997-2002 5.1875pc
Ranks Hovis McDougall 6⅜pcLn 1985-88 3.1875pc
Ricardo Consulting Eng 2.25p
STC Distributors 7pcDb 1989-94 3½pc
Samuel (H.) 5¾pc1stDb 1985-90 3⅞pc
Saul (D. F.) Real Est Tst 9cts
Saville Gordon (J.) Grp 1.75p
Scottish Newcastle Breweries 5½pcPf 1.925p. 7¾pcPf 2.7125p. 6pc1stDb 1984-89 3pc. 4½pc1stDb 1985-90 2¼pc. 7¼pc1stDb 1989-94 3⅝pc
Scottish Inv Tst 4pcDb 2pc. 4½pcDb 2¼pc. 5pcDb 2½pc
Seagram Distillers 12¼pcDb 2012 6.1875pc
Sharpe Fisher 0.75p
Shaw Carpets 8¾pcDb 1988-93 4⅜pc
Southern California Edison 57cts
Spong Hldgs 7pcPf 3.815p
Stevens (J. P.) Inc 30cts
Svensk Exportkredit Nts 1990 $343.81
Tate Lyle 13pcLn 1994-99 6½pc
Television Svcs 1.2p
Television South 14/20pcLn 1986-88 10pc. 10pcLn 1997 5pc
Torchmark Corp 15cts
Transamerica Corp 44cts
Trinity Int Hldgs 3p
Triplevest 6.586p
Trusthouse Forte 6.25pcDb 1984-89 3.125pc. 6.25pc1stDb 1985-90 3.125pc. 7.25pc1stDb 1986-91 3.625pc. 9.1pc Ln 1995-2000 4.55pc. 10.5pcDb 1991-96 5.25pc
Ultramar 2p
United Newspapers 8p
Usher (Frank) Hldgs 1.5p
Vaux Grp 7pcPf 2.45p. 4½pcAPf 1.575p. 6½pcAPf 2.275p
Waterford Glass Grp 1.2p
Webber Electro Comp 1.15p
Weir Grp 10pcPf 5p
Wells Fargo FltgRateSubordNts 1992 $54.14
Wells Fargo Intnl Fin NV GtdFltgRtSub Nts 1996 $53.87
Westminster & Country Props 8pcLn 4pc
Westpool Inv Tst 5pcLb 2½pc
Wingate Prop Inv 0.81p
Woolworth Hldgs 14pcLn 7pc. 8½pcLn 4¼pc

SATURDAY NOVEMBER 1

DIVIDEND & INTEREST PAYMENTS—
APV Hldgs 3.15pcPf 1.575p. 4.55pcPf 2.275p. 5.25pcPf 2.625p
American Info Tech Corp 177cts
American Tel Tel 30cts
Anglo American Ind 6.625pcPf 1.65475p
BET 4¾pc2ndDb 2⅜pc
Bassett Foods 7½pcPf 2.625p
Bell Atlantic Corp 90cts
Bellsouth 75cts
Berkeley Tech 3cts
Boulton Paul 5pcPf 1.75p. 5½pcPf 1.925p. 7pcPf 2.45p
Bristol 3½pc Db 1¾pc
British Inv Tst 5½pcPf 1.8375p
British Mohair Hldgs 6pcPf 1995 2.1p
British Shoe Hldgs 6½pc3rdPf 2.275p
Daniell Breweries 4½pc2nd B Db 1995 2¼pc
Edinburgh Inv Tst 7½pcDb 1995 3¾pc
EIF UK 12¾pcLn 1991 (Reg) 6⅜pc. 12¾pcLn 1991 6⅜pc
Exchequer Gas 3pc 1990-95 1½pc
Export Devel 10⅝pcNts 5.3125pc
Ferranti 3.85pc3rdPf 1.925p
Funding 6½pcLn 1985-87 3¼pc
Genfinance NV Nts 11.31pcLn 2007 (Reg) 5.655pc. 11.31pcLn 2007 (Br) 5.655pc. 11.49pcLn 2007 (Reg) 5.745pc. 11.49pc Ln 2007 (Br) 5.745pc
Glaxo Grp 7½pcLn 1985-95 3¾pc
Gossard Hldgs 5½pcPf 1984-2000 1.925p
Govett Atlantic Inv Tst 5pc1stDb 1985-90 2½pc
Guaranteed N Ireland 4½pcBds 2¼pc
Hardys Hansons 5pc1stPf 1.75p. 4pc1st Db 2pc
Imperial Brewing Leisure 6¾pc2ndDb 1984-89 3⅜pc. 7¼pc2ndDb 1985-90 3⅝pc
Inelco Corp 25cts
King Shaxson Hldgs 5pcPf 1.75p
Lewis (John) Props 8½pcDb 1993-98 4¼pc
Lincoln National Corp 50cts
M and G Extra Yield Fund 4.3p
Marshall (Thomas) (Loxley) 2p
Marshalls Halifax 10pcPf 5p
Merchants Tst 4pcDb 2pc
Metal Closures Grp 2.2p
Newman Inds 10pcPf 5p. 10¼pcPf 5.125p
Norwich 3pc 1½pc
Nottingham Corp 3pc Gas Anns 1½pc
Parker Knoll 8p. A NV 8p
Parkland Textile Hldgs 3.15pcPf 1.575p
Property Reversionary Invs 5pcPf 1.75p
Ratcliffs (Gt Bridge) 0.5p
Reading 3½pc 1978 1¾pc
Reed Publishing Hldgs 3½pcDb 1983-88 1¾pc. 6½pcDb 1983-88 3¼pc
Scottish Agric Sec 3½pcDb 1983-93 1¾pc. 13pcDb 1997-99 6½pc
Scottish Inv Tst 3.5pcPfd 1.75p. 3.85pc Pfd 1.925p. 4.55pcAPf 2.275p
Shellbank Prop Tst 0.8p. 7½pcPf 2.625p. 6pcPf 3p
Southwestern Bell Corp 160cts
Stock Exchange 10¼pcDb 2016 3.791pc
TR Pacific Basin Inv Tst 4½pcDb 2¼pc
Treasury 6¾pc 1985-98 3⅜pc
Union Int 2.45p
Watney Mann Truman Hldgs 7¼pcDb 1987-92 3.5625pc. 8⅛pcLn 2¼pc. 8⅛pcLn 4.0625pc
Whitbread 4½pc1stPf 1.575p. 6pc3rdPf 2.1p. 7pc3rdPf 2.45p
Yeoman Inv Tst 11¼pcDb 2016 5⅝pc
Young Brewery 7¼pc1stDb 1986-91 3⅝pc

"Lingan's ship roars out of Mingo:..." From Flash Gordon Comic Strip, 1939.

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Once, gearing a company for the 21st Century would have counted as long-range planning.

But the next century is next door now.

And any company that wants a significant place in the future has to consider whether its businesses, literally, have a future.

At TRINOVA, we began thinking about the future some time ago. And it's reflected in the corporation we've become, and the products we make.

You see, our operating companies—*Aeroquip, Vickers and Sterling Engineered Products*—manufacture thousands of products other manufacturers need. Some $1.4 billion worth.

Equally to the point, in our businesses (power and motion control, and plastics) we're market leaders.

Well, as leaders, we've begun applying certain principles that we're convinced will become more and more a part of manufacturing.

Meaning what, exactly?

Absolute quality, for one. Customers always looked for quality. But nowadays, they insist on it.

And there's the principle of cost effectiveness. Which involves not just making products that contribute to our bottom line, but to our customers' bottom line.

Finally, the pursuit of technological excellence. A pursuit that goes beyond the factory floor, into every corner of our corporate life.

If these principles made sense before, they'll be even more crucial in the future.

Which is why we feel the *urgency* about making them part of our thinking and our products.

The Twenty-First Century is, after all, only 14 years away.

TRINOVA

INTO THE 21ST CENTURY.™

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Trade fairs and exhibitions: UK

October 28-30
Instrumentation Conference and Exhibition — TEST & TRANSDUCER (0822 4671) Wembley Conference Centre

October 29-November 2
International Bike Show (01-385 1200) Olympia

October 30-November 2
London Money Show—MONEY (01-948 5166) Olympia

October 30-November 2
Business Holiday and Travel Show (0272 215206) Exhibition Centre, Bristol

November 4-6
London Heating and Ventilating Show (01-630 7525) Olympia

November 9-13
International Woodworking Industries Exhibition—WOODMEX (01-486 1951) NEC, Birmingham

November 11-14
New Technology Exhibition—BARCLAYS TECHMART (021-780 4171) NEC, Birmingham

November 11-14
Compec Exhibition (01-661 4900) Olympia

Overseas

October 28-30
Trade Fair for Clothing Textiles — INTERSTOFF (01-734 0543) Frankfurt

October 31-November 2
Skiing and Winter Tourism Exhibition (01-486 1951) Helsinki

November 4-12
National Inventions — NIEX (01-439 0501) Seoul

November 4-7
European Technology Exhibition —TECHEX (01-584 5748) Milan

November 6-9
Hong Kong Trade Fair—INDUSTRY (0206 45121) Hong Kong

November 9-13
ArabBuild 86 (Bahrain 250033) Bahrain

November 18-22
The Saudi-British Trade Fair (01-642 7688) Jeddah

Business and Management Conferences

October 27-28
Philadelphia Stock Exchange: 1986 International foreign currency options symposium (01-606 2348) Four Seasons Hotel, Philadelphia

October 28
FT Conferences: Financing Tomorrow's Winners (01-621 1355) Robinson College, Cambridge

October 28-31
UK and US Departments of Energy: Energy from landfill gas (0235 24141) St John's Swallow Hotel, Solihull

October 28
CBI/Faegre and Benson: US product liability—managing the risks (01-379 7400) Centre Point, WC1

October 29
Arthur Young Acquisitions and Disposals (0272 290808) Bristol

October 30-31
FT Conferences: The Fourth Professional Personal Computer Conference (01-621 1355) Hotel Inter-Continental, W1

November 3-4
Path fast: International floriculture seminar (02566 78755) Hotel Krasnapolsky, Amsterdam

November 3-4
FT Conferences: The City after the Financial Services Act (01-621 1355) Hotel Inter-Continental, W1

November 5-6
Club de Bruxelles: The future of Agriculture in Europe (Brussels 771 9890) Brussels

IBC: Third annual advertising and marketing financial services conference (01-236 4080) Royal Lancaster Hotel, W2

November 6-7
BIS Applied Systems: Communicating with OSI (01-633 0866) Kensington Palace Hotel

November 9-11
Confederation of British Industry: National Conference 1986 (01-379 7400) Bournemouth International Conference Centre

November 10-11
FT Conferences: European Business Forum—Italy and the international economy (01-621 1355) Rome

November 11
The Royal Institute of International Affairs: Malaysia as a commercial partner (01-930 2233) Chatham House, SW1

November 12-13
Tennessee Associates: Managing for productivity through quality — the right way to manage (08833 6805) Churchill Hotel, W1

November 13
Longman Seminars: Tax planning on marriage breakdown (01-242 4111) Barbican

November 16-19
Western Australia Government: Future of trade, finance and investment in the Pacific Basin—PACRIM '86 (01-240 2881) Perth, W. Australia

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Parliament

TODAY

Commons: Debate on regional policy on a motion tabled by the Scottish and Welsh Nationalist Parties. Motions relating to statements of changes in the immigration rules.

Lords: European Communities (Amendment) Bill, report. Financial Services Bill, third reading.

Select committees: Channel Tunnel Bill. (Grand Committee Room, Westminster Hall. 2.30 pm.) Treasury and Civil Services—subject: international credit and capital markets; witnesses: Mr Carlos Santistevan, Libra Bank; Professor Charles Goodhart, London School of Economics (Room 8. 4.45 pm).

TOMORROW

Commons: Motions on the Deacons (Ordination of Women) Measure. Motion on the British Railways Board (Increase of Compensation) Order. Private business after 7 pm.

Lords: Housing and Planning Bill, third reading. NHS (Amendment) Bill, report.

Select committees: Channel Tunnel Bill. (Grand Committee Room, Westminster Hall. 10.30 am). Education science and the arts—subject: student awards; witnesses: National Union of Students; National Confederation of Parent Teachers Associations (Room 15. 10.40 am). Transport—subject: financing of rail services; witness: British Rail (Room 17. 4.30 pm).

WEDNESDAY

Commons: Debate on Westland PLC, followed by a debate on an E.C. document relating to commercial agents.

Lords: Housing (Scotland) Bill, consideration of Commons amendments. Public Order Bill, third reading. Unstarred question on what extent the Government regards health and family planning as part of NHS development projects.

Select committees: Select Committee on the Channel Tunnel Bill (Grand Committee Room, Westminster Hall, 10.30 am). Foreign affairs—subject: cultural diplomacy; witnesses: Sir John Burgh, Director General British Council, and officials (Room 15. 10.30 am). Trade and Industry—subject: the tin crisis; witnesses: TINCO, and Giles Shaw MP (Room 8. 10.45 am). Social services—subject: primary health care; witnesses: National Association of Health Authorities; Health Visitors Association; Royal College of Midwives (Room 21. 4.15 pm). Foreign affairs—subject: cultural diplomacy; witness: British Council (Room 15. 5pm).

THURSDAY

Commons: consideration of Lords amendments to the Financial Services Bill.

Lords: Education Bill and Salmon Bill—consideration of Lords amendments. Motions on food protection orders.

Select committee: European legislation—subject: the 1987 European Community budget; witnesses: Hon Peter Brooke MP Minister of State, Treasury (Room 15, 10 am). Channel Tunnel Bill (Grand Committee Room, Westminster Hall, 10.30 am).

FRIDAY

Commons: Consideration of Lords amendments to the Financial Services Bill.

FINANCIAL TIMES SURVEYS

The Financial Times proposes to publish a

DISTRIBUTION SERVICES SURVEY

on December 5, 1986

The following subjects will be covered:

Equipment Products
Management Geography
Customers

All editorial comment should be addressed to the Survey's Editor. A full editorial synopsis and information about advertising can be obtained from Robin Ashcroft, Tel: 01-248 8000 ext. 3365, or your usual Financial Times representative.

EUROPE'S BUSINESS NEWSPAPER

هكذا من الأصل

MERRILL LYNCH TAKE A GREENWICH VIEW

Robert Ogden — Indescon Developments Limited, developers of the new Docklands Computer Centre for the Stock Exchange, are pleased to announce that Merrill Lynch will be joining them in their own 37,000 sq. ft. Data Centre at Greenwich View in the London Docklands. The building will provide a purpose built centre for more than 60 of the banks administrative and operations staff by May 1987.

Merrill Lynch's General Services Director, David Carrie, said "The cash effectiveness of the capital allowances and rate free period of the Enterprise Zone was one of the main reasons for our relocation decision, together with the position and environmental aspect of the Docklands."

Sales and Marketing Director for the London Docklands Development Corporation, Peter Hadley, said the deal was futher proof of Docklands' positioning as 'The Emerging City'. "We are justifiably proud of our success in extending the City eastwards and welcome Merrill Lynch's decision to join the other international finance and banking institutions who have found the solution to their locational problems in Docklands. The growth of the financial sector in Docklands can only be healthy for everyone; for the companies themselves, for the economy as a whole, and for the local population, whose future employment prospects can only be secured in the long term by healthy growth and investment in the industries of the future."

Greenwich View comprises approximately 300,00 sq. ft. prestige office and mixed use accommodation.

PHASE ONE

90,000 sq. ft. already let.

PHASE TWO

Two 15,000 sq. ft. fully fitted office units.
Ground floors designed to accommodate computer installation.
Waterside location.

PHASE THREE

180,000 sq. ft. prestige office building which may be subdivided.
Construction commencing 1987.
20,000 sq. ft. dealing floors to be provided.
Suitable for major computer installations.
Full air conditioning and lifts.
Dramatic waterside location with views to Greenwich.
Only ten minutes from City of London.
Available to rent at approximately one third equivalent City occupational costs.

This building can be designed and built to your specific requirements.

To discuss your particular needs please contact Bob Page at Healey and Baker on 01-629 9292, or Tim Garnett at Robert Ogden Indescon Developments on 0943 464531.

ROBERT OGDEN INDESCON DEVELOPMENTS LTD.
Otley, Yorkshire LS21 1HX, England Telephone Otley (0943) 464531 Telex 51187

29 St. George Street Hanover Sq. London W1A 3BG

London Docklands. The Growing City.

New Issue

All these securities having been sold, this advertisement appears as a matter of record only

October 1986

Xr CAPITAL HOLDING, GUERNSEY, C.I.
(Trustee: Ansbacher (C.I.) Limited)

established by

ICN PHARMACEUTICALS, INC.
Costa Mesa, California, USA

Swiss Francs 100 000 000.–

5⅝% Exchangeable Certificates 1986-2001

Exchangeable for Common Stock of

ICN PHARMACEUTICALS, INC. and SPI PHARMACEUTICALS, INC.

BANK GUTZWILLER, KURZ, BUNGENER LTD

BANCO EXTERIOR (SUIZA) S.A.
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CHASE MANHATTAN BANK (SWITZERLAND)
CHEMICAL N.Y. Capital Market Corporation
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PRUDENTIAL-BACHE SECURITIES INTERNATIONAL
acted as Advisor to ICN PHARMACEUTICALS, INC. in this transaction

DOMINICK & DOMINICK
INCORPORATED

Members of the New York, American, Toronto and Montreal Stock Exchanges

are pleased to announce their membership of
THE LONDON STOCK EXCHANGE
on behalf of
DOMINICK & DOMINICK LIMITED

CNT

Caisse Nationale des Télécommunications
15,000,000,000 Japanese YEN
Floating Rate Notes due 1997

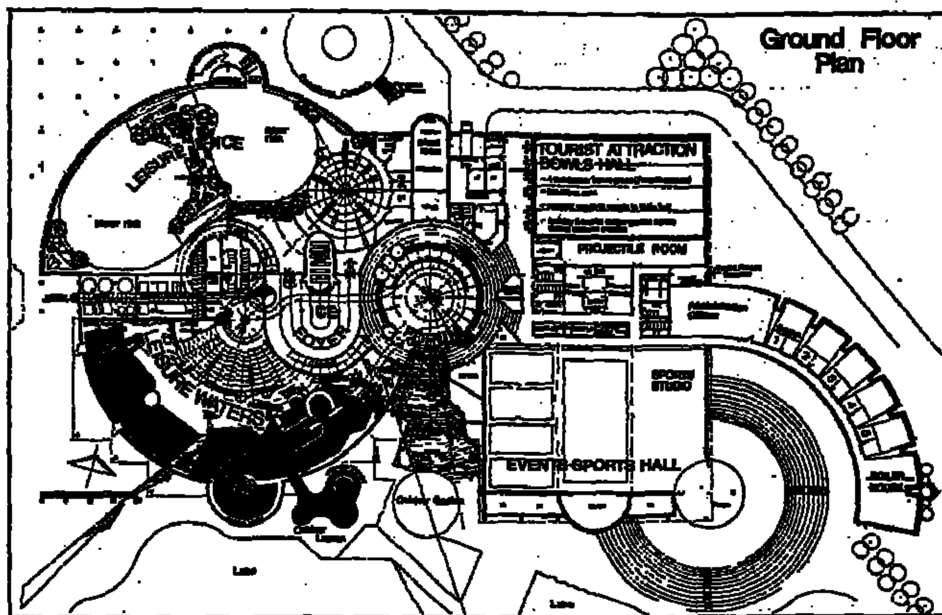
In accordance with the Conditions of the Notes, notice is hereby given that for the interest period from October 22, 1986 to April 22, 1987 the Notes will carry an interest rate of 5 1/16% per annum.

The interest payable on the relevant interest payment date April 22, 1987 against coupon n°3 will be YEN 255,938 per Note.

The Reference Agent
KREDIETBANK
S.A. LUXEMBOURGEOISE

CONSTRUCTION CONTRACTS

Bryant construction
021-704 5111
0344 426688
SOLIHULL
BRACKNELL



Doncaster leisure complex

NORWEST HOLST has won £26m of building and design work in the sports and leisure industry with the signing of five contracts. It has been given the "green light" on an £18m management contract, to build the first phase of Doncaster's multi-purpose leisure park, designed by Faulkner Browns, close to the famous St Leger racecourse. Work, for Doncaster Metropolitan Borough Council, will take 29 months and the complex will be open to the public during 1989. Mechanical services have been designed to capitalise on heat recovery, particularly in the pools area.

At the Doncaster Leisure Complex, two completely independent structures are involved, keeping wet and dry sports facilities separate, linked via a central forum. In the wet area are several leisure pools covering about 700 sq metres with a 120-metre-long water slide as well as a split-level ice pad area which will create an "alpine environment." The dry facilities section is multi-purpose and contains a main events hall, bowls hall, fitness suite, cinema/meeting hall, snooker room, squash courts, bars and cafes. Externally there will be an open arena and boating lake along with general landscaping.

All substructure work will be watertight and the buildings will be steel-framed and supported on mass concrete foundations. With its structure founded on a ground strata of running sand, an elaborate system of dewatering wells will be installed around the building during the contract. Externallly the structures will be clad in granite block with steel or aluminium curtain walling and double glazing. Mechanical services have been designed to capitalise on heat recovery, particularly in the pools area.

Norwest Holst has also started work on three design and construct contracts for other local government clients. Heading the list is a £2.6m sports centre in Gravesend for Gravesham Borough Council. On this project, the company is to produce a centre using the latest techniques and equipment. Housing a number of water features, it involves extending a dry sports centre and adding a large free-form pool with beach at one end and an island in the centre. The other contracts are Warren Farm Leisure Centre for Birmingham City Council and Easton Sports Centre for Bristol City Council. The latter is a £2.5m extension to an existing sports centre. The work involves a main hall with two swimming pools and an elaborate flume ride. The former, on the outskirts of Birmingham, is a £1.6m design and construct contract to convert a school hall into staff offices and changing rooms along with construction of a building to house a free-form swimming pool. A £1.1m management contract to refurbish and extend Corby swimming pool for the local district council has been won.

Eltham supermarket

JAMES LONGLEY has won contracts worth £25m for projects in London and the Home Counties. The awards include a £7.7m phase two construction of four high-tech units totalling 150,000 sq ft for the Water Authority Superannuation Fund in Maidenhead, Berkshire, and a £6.5m 81,000 sq ft Sainsbury supermarket and car park in Eltham, south east London. Other London contracts range from a £3m refurbishment of the Salvation Army offices in Judd St, WC1, and Marshall St Leisure Centre, W1, worth £600,000, to construction of a private house in Hampstead, value £800,000.

Longley projects also include a gatehouse and reception area for Ford prison, Hampshire; a police convalescent home in Goring-on-Thames, Berkshire; 20 flats for the elderly for Reigate and Banstead Borough Council and a dining hall and kitchen facilities for the Institute of Marketing at Cookham, Berkshire. Design and build awards include eight industrial units in Orpington, Kent, and 10 in Tadworth for Midas International Properties with a total value of £800,000.

PIRELLI CONSTRUCTION has been awarded a £9m contract by the British Railways Board for the 25 kV ac overhead electrification on the east coast main line electrification project. The contract is for the supply and installation of the overhead equipment on the 130 km section between Chathill and Edinburgh. The project is due for completion by December 1988.

★

BUSH GOULD, a subsidiary of the John Willmott Building Group, has been awarded a contract worth about £2.4m by the Property Services Agency for the construction of vehicle maintenance and operations facility buildings at RAF Bentwaters, contract will commence shortly.

Airport runway problems

Birmingham City engineer's department has become consultants for the £3m project to strengthen and resurface the main runway at Birmingham International Airport. The scheme presented the department, who have responsibility for the design, organisation and supervision of the project, with a number of logistical problems.

The most fundamental difficulty was how to carry out the resurfacing while minimising the disruption to a busy airport. The answer was to close the runway at night during the winter months, which means that contractors, **SIR ALFRED McALPINE**, will be doing the work between 10 pm and 7 am. Each night a section of the runway will be prepared and the asphalt rapidly applied before it cools in the cold night air. At the end of each night's work, temporary ramps will be installed and all debris, down to the smallest stone, removed so that the runway is operational for day flights. This procedure will be repeated night after night from October 27 until completion of the contract on April 26 1987.

At the end of the scheme, 40,000 tons of Marshall asphalt will have been applied to resurface, reprofile and strengthen 2.25 km of runway. Around 700 runway lights will be raised and at least 130 lights will be installed as part of the general upgrading of facilities.

★

HUNTING GATE has been awarded two design and build contracts worth over £4m. Makro Self Service Wholesalers has appointed the company to design and build a 150,000 sq ft wholesale warehouse at Stockingswater Lane, Brimsdown, Enfield, on the former site of the Delta Metals factory. The store, which will have a dock-level loading facility, is to be clad in brick and a pre-finished metal sheeting system. The external works will be extensive to provide parking for over 80 cars and a retail petrol filling station. Work on the £2.8m contract will commence shortly

The second contract, from Queensgate Developments, is to design and build the Maidenhead Centre for Technology at Moorbridge Rd, Maidenhead.

NATWEST INVESTMENT BANK

NatWest Investment Bank is pleased to announce that Government Securities Companies in both the UK and US start operations today, Monday 27 October 1986.

COUNTY NATWEST GILT-EDGED SECURITIES
UK Gilt-Edged Market Maker
Drapers Gardens, 12 Throgmorton Avenue, London EC2P 2ES
Trading: (01) 628 9641
Sales: (01) 628 7799
Telex: 269729

COUNTY NATWEST GOVERNMENT SECURITIES
US Government Securities Dealer
26th Floor, 100 Wall Street, New York, NY 10005
Trading: (212) 440 8330
Sales: (212) 440 8330
Telex: 233462

Offices also in:

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Tx: 2228436	Tx: 60111	Tx: 177240

National Westminster Bank Group

COUNTY SECURITIES
UK Equity Market Makers

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27th October 1986

MANAGEMENT

Corporate strategy

How Japan is dumping a dated global dogma

Christopher Lorenz explains the reasoning behind the niche marketing of Sharp, Matsushita, and other top companies

FORGET all that hype about the inexorable "globalisation" and homogenisation of products and brands. Contrary to what you might think after reading Saatchi and Saatchi's incessant propaganda over the past few years, the globalisation of industrial competition does not necessarily mean that everything consumers buy is "going global."

Many multinational manufacturers—especially the Japanese—are cleverly mixing partial globalisation strategies with precisely the opposite: a carefully-researched drive to out-think their competitors in exploiting different regional and national patterns of consumer behaviour.

As a result they are not only targetting all the newly-global market segments which Professor Theodore Levitt of Harvard has identified (rich teenagers, "Yuppies," jet-setting middle-aged executives, wealthy retired folk and so on), but also all the various shades of regional and local preference which surround these global (or near-global) "chunks" of the market.

Take three of Japan's most successful exporters, Matsushita, Nissan and Sharp, all of which are rapidly transforming themselves into global manufacturers. Matsushita, which claims to have made over 100m of the 900m television sets installed in the world to date, proudly points to the still considerable differences between many of the products it makes for Japan, the rest of South-East Asia, the US and Europe. Masatoshi Naito, the mammoth company's general manager for TV design, goes as far as to declare that "if they sell well, we design things specially for South-East Asia, for instance, even if we don't think their design is very good."

At Nissan the company's 1986 annual report is remarkably specific about the fact that, contrary to the now-discredited "world-car" doctrine, "we strive to develop cars that can be sold to distinct segments of markets around the world."

This does not just mean Yuppies and other global segments; Makoto Moriya, a senior manager in Nissan's product development centre makes it quite clear that his company is also talking about segmentation along national lines.

At Sharp, the discreditation of blanket globalisation is even more explicit. "We are very much designing for particular lifestyles, in different parts of the world," says Kiyoshi Sakashita, design director of the electronics and appliance company. "Ten years ago we would have made one global product, but now we make several variants."

Sakashita, who is the only design chief of a large Japanese company with a seat on its main board, emphasises that this is not just a matter of painting Sharp's products in different colours, according to national tastes. There are also considerable differences in their features and performance, and quite a number of Sharp's products are designed for specific regions and countries. "We must think increasingly in terms of different lifestyles in different parts of the world," Sakashita argues.

Contrary to what the ardent Saatchi disciple might construe from this, Sharp is by no means blind to the economies of scale which can be reaped from global design, development and production. The company's official formulation of its overseas design policy, as expressed in an internal memorandum, is quite explicit about the tension between globalisation and localisation.

Competition is indeed "making it imperative to realise cost reductions through rationalisation and efficiency", it concedes. "How to pursue these goals while responding to diverse local needs is an antithetical proposition. Our hardships lie in that this proposition must be brought into actual products."

The differences in market demands for microwave ovens, for example, are "extremely multifarious worldwide", the document argues. TV sets also require wide design variety between countries, it says. So, even if the company can use a common chassis and a largely identical set of components, the product may look different and do different things.

As Sharp and Matsushita's executives point out, there is no inconsistency in arguing that some parts of the market are becoming "globalised" while others need to be treated in an even more geographically different way than in the past.

The most easily globalised are new types of product (such as personal computers, or Sony Walkmans). The least are those whose technology and product concept are now mature, and where market penetration rates are high (such as simple TVs and refrigerators). Only by appealing to a wide variety of special needs, preferences and fashions — including national differences—do the Japanese feel they can make much more headway with such products.

Their thinking is given added force by this year's sharp appreciation of the yen; there is no point producing millions of standardised TVs for the world market if the Koreans or Taiwanese can make them more cheaply. The answer, according to many companies, is not only to move up-market in a general sense, but to start catering for the subtly different preferences of various categories of consumers; while some such segments will "go global," others will not.

In order to make their dual strategies work, Japanese companies are not only installing flexible manufacturing systems (FMS), which can make products economically in short runs; more fundamentally, they are also beginning to practise what John Quelch and Edward Hoff, two of Theodore Levitt's Harvard colleagues, call "customised global marketing."

Rather than looking on globalisation as a simple either/or proposition, involving either complete standardisation or none at all, the Japanese are following Quelch and Hoff's advice and—for each individual product, or line of products—tailoring their approach for each element of the "business system" (research; development; supply; production; marketing) and for each part of the "marketing mix" (product design; branding; positioning; pricing; distribution; sales and service). Some elements are being globalised and others not.

By contrast, a number of western companies, such as Black and Decker, appear to have swallowed the doctrine of globalisation literally, and are busy standardising everything.

Almost without exception, Japanese companies which are following a mixed strategy have realised that two of the many preconditions for its success are a heavy investment in better market research, and the upgrading of their industrial design departments to a pivotal role in product development. In many cases, designers are also being given considerable influence on the formulation of marketing strategy.

At Sony, design was elevated to the same corporate level as marketing, engineering and production nearly a decade ago. What is less well known in the West is that the same process has occurred at Sharp, and is now under way at companies as diverse as Matsushita, Nissan and Honda.

At Sharp and Matsushita, the emergence of design from its traditional backroom role is illustrated by its growing involvement in so-called "lifestyle research."

In this form of market research, which a battery of Japanese companies are now pursuing, hard data about *current* consumer preferences takes a back seat to less quantitative assessments of *future* aspirations and behaviour. Sharp, for example, established a "lifestyle research centre" early last year, composed of 25 specialists who work closely with the designers though they report direct to the company's board. Kiyoshi Sakashita stresses the vital importance to Sharp of what he calls "humanware" (a broad concept that underlines the sensual and psychological impact of products, as well as their material characteristics).

At Matsushita, too, lifestyle research is being given high priority. As one of the company's senior executives puts it, "It's hard to find out what's really happening" from the mass of words and statistics which constitute the bulk of most market research studies. "Sometimes customers don't even realise what they do or what they want."

Instead, both Matsushita and Sharp have started to send their designers out into people's homes and places of work, in order to observe new social trends at first hand, and to get a good feel for how their companies can best serve (and mould) the consumer.

This form of market research was pioneered by Sony, in its inimitably informal style, as far back as the late 1950s, when it used it to define a new American market niche—small black and white portable TVs—which had been missed by conventional US research. The discovery paved the way for Japan's successful assault on the US television market.

Sony has continued to rely heavily on this form of market research ever since; it did the same 20 years later, for instance, with its famous Walkman personal stereo. But, in the West, "lifestyle research" is generally seen as a recent innovation.

In Matsushita's case, lifestyle research done directly by its designers has led the company to develop a wide range of extra products. One of them is a cheap, small microwave oven specially for re-heating food (it cannot cook it); it is primarily aimed at harassed Japanese housewives whose husbands invariably get home late after an evening drinking with their colleagues.

The designers also spotted that many Japanese people detest letting old fish skin and bones rot in the dustbin. Instead, they keep them in the fridge until the garbage collector calls. So Matsushita designed a special fridge compartment for the purpose.

As a result of such initiatives, the company can now flank its global product lines, and its wide range of regional items, with a list of appliances carefully tailored to the Japanese market. It counts itself lucky that, contrary to the West's new conventional wisdom, not everyone wants to live in the same way all over the world.

"If the idea catches on, we're going to do TVs next"

BSC trains the health service

BY ALAN PIKE

THE PRESSURES of the British Steel Corporation's long and anguished drive back to profitability have escaped no part of the organisation including its management college at Ashorne Hill in Warwickshire.

Disappearance of most of the industry's employees—down from 365,000 at the time of nationalisation to about 51,000 today—combined with growing pressure to cover the college's costs, have sent officials on a search for new markets.

The result is an unusual partnership under which the BSC college is offering tailor-made, staff college courses for a number of outside clients.

One of the first partnerships was with the Health and Safety Executive, the government agency responsible for existing health and safety legislation, which now sends all its factory inspectors for training at Ashorne Hill; other clients include British Railfreight. College officials are talking to the Customs and Excise Department about a possible contract, and the move to attract outside business will take another important step forward in February when Ashorne Hill begins training middle managers for the National Health Service.

Malcolm Ballin, principal and director of Ashorne Hill, stresses that the college's objective is to develop specific courses for individual clients, rather than simply to try to sell courses which were designed primarily for steel industry managers to a wider market. "Our policy has been to get close to a limited number of outside clients and work out exactly what training they need. There are obviously similarities in the management training requirements of any organisation, but the precise content of a course depends upon how a particular organisation is structured and run."

This is illustrated in the approach which is being taken to the health service work. The introduction of new general management systems in the NHS following the recommendations of the Griffiths Report is generating a substantial training need among health service staff who have a variety of professional qualifications but lack management training.

Each Ashorne Hill NHS course will cater for 24 students. Before each course begins college staff plan to interview all prospective students, and their NHS superiors, to ensure that the content of the training meets their precise needs. About 40 per cent of the courses will be devoted to individuals' personal training requirements.

Students at Ashorne Hill now split 50-50 between BSC managers and those from elsewhere, with outside contracts producing about 40 per cent of the college's income. The college provides middle management training for the private steel sector—Ashorne Hill was founded in the 1950s to meet the management training needs of the old private steel companies—and overseas steel producers as well as the corporation.

Although the declining scale of BSC's activities precipitated the drive to find outside clients, the corporation is itself giving a high priority to training as it bids to become more internationally competitive. 1986 has been declared BSC Training Year as an adjunct to the national Industry Year campaign.

Ashorne has experienced an 11 per cent increase in demand for BSC management training over the past year, with between 500 and 600 middle managers attending the college annually. But the priority being given to training as part of the latest stage of the Survival Plan for BSC, which began with widespread job losses and a drive for better productivity, extends throughout the corporation.

The starting point for the BSC training thrust is the belief of senior management that all employees will need to increase their skills and expertise to face international competition and lift productivity levels still higher. All employees are therefore being urged to think about their own individual training and career development needs, and managers and supervisors have been told to discuss these plans with the workforce. Employees are being encouraged to accept that some training should take place in their own time, and the corporation is investing in computer-based training, interactive videos and other distance learning techniques to help make this possible.

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THE ARTS

Architecture/Colin Amery

Back into the future

It is sometimes difficult to relate the actual events of a week that has just passed to the growth and development of architectural design in the United Kingdom. How far, for example, are architects able to respond to the Big Bang?

The latest signs that appeared in a report last week entitled "Workplace 2000" suggest that the future lies some way from the awkward ganging up of office buildings around the overburdened City of London. Architects Scott Brownrigg and Turner and a firm of information technology consultants, P-E-Consulting Services, say that "company villages" represent the logical alternative to the traditional office building.

In their fairly short report the consultants say how out of date most office accommodation is in Britain. "During the period 1948 to 1963 building permission was granted for 58m sq ft of office accommodation in Central London alone. All of this accommodation was designed and built to standards that now seem almost neolithic."

What is clear from the report is how little co-ordination there has been between architects and the experts in the field of office automation. There has also been remarkably little contact between the people who work in offices and their managements who commission the new buildings. The clear demand for facilities for exercise, the simple provision of showers, easy access to shops and food suggests that the idea of the self-contained out-of-town office village is not such a bad one.

The report underlines the obvious fact that a healthy staff is a better prospect than an unhealthy one. The provision of a large range of facilities more normally associated with leisure than work can in fact turn out to be cost effective. The corporate village will include shopping arcades, banks, subsidised restaurants, gymnasia and pools and maximum car parking facilities.

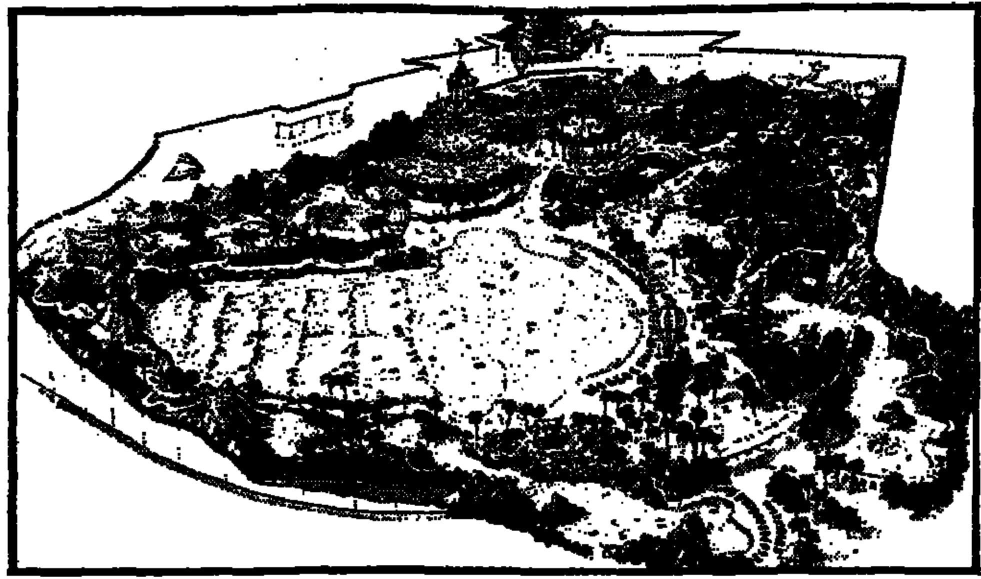
The reduction of numbers working in offices is also seen as inevitable, mainly as a result of increased automation and the encouragement of managers for those who can do so, to work at home. What is much less clear from the report is the architectural result of all these commercial manoeuvres.

A similar doubt about the architectural quality of large retail developments must concern all those concerned with the environment. Early last week, one of at least seven proposals in the pipeline for major retail development around Exeter was announced.

The developers for the latest proposals on a 238-acre site adjoining Exeter Airport are Deepdene Consultants, acting for Exeter Park Estates. Known as Skypark, these proposals include a 70-acre business park, a hotel and a permanent fairground and Paradise Island.

All the various proposals are expected to go to public inquiry in February. In the light of Mr William Waldegrave's statement, which made it clear that the Environment Department is determined to protect voters (and votes) in Green Belt constituencies, the decision for Exeter is likely to be the Minister's.

His responsibilities, are of course, wider than mere architectural matters. I would, however, like to suggest that he looks at the danger to our national imagination that is raised by these *ersatz* creations. The Skypark proposals include the creation of a completely phoney Town Square, as well as a palm-fringed beach and wave pool in a totally controlled environment. There is a lot of talk at the moment about the terrible *struggles* that go on when we try to go shopping in old-fashioned town centres. Parking is the main one — although frequently exaggerated and often something that traffic management can handle—rather than major reconstruction in town centres.



The fantasy land that could be built outside Exeter — as real as the land of green ginger?

What is at stake is not just the future of some of our ancient town centres but also the inspiration for our *minds* that can come from the civilised surroundings of old cities. The creation of Disney-like fake towns must be resisted at all costs. *The likelihood of finding* an antique shop or a second-hand bookshop in an out-of-town centre is entirely remote.

Motorways and shopping centres are natural allies and there is no reason why the removal of large-scale shopping activities to the motorway fringes should not liberate the older town centres for cultural and social uses. What is not needed are the massive leisure and shopping complexes that are like limbo land—islands of video shops surrounded by seas of cars.

The need to strike a balance between the real and the false towns is the dilemma for the Secretary of State and not just in Exeter. Shopping centres in America range from the fantasy worlds of California to the dreary drive-ins of New Jersey. The point about America is that there is an awful lot of nothing between the towns.

In the UK we can offer high splendours in town and country, all of them within range of existing cities. The dilution of our environmental *experience by specially created* commercial fantasy towns is a far cry from what the nation needs. There is ample land in the twlight fringes of the *inner cities, plenty of it derelict* and in need of reclamation.

Scenes From A Marriage/Barbican

Michael Coveney

It is a long time since any company, let alone the Rolay Shakespeare Company, has set before the paying public an evening of such heroic ineptitude as this Feydeau mélange translated and adapted by Peter Barnes and directed by Terry Hands. The catch-all title covers three unrelated short plays presented in reverse order of composition: *Hortense a dit: "Je m'en fous,"* *Leonie est en avance* and *Feu la mère de madame*. They are three of the five acrimonious final plays composed after the playwright left his wife in 1909.

Mr Barnes gave another of this Strindbergian sequence ("masterpieces," Jean Louis Barrault called them), *On purge bébé*, in his "*Frontiers* of Farce" Old Vic bill 10 years ago. Here, Yvonne and Lucien of *Feu la Mère* are the constant, inconstant couple throughout. In *Hortense*, the dentist Lucien is dismissing a maid whose cat has urinated on his wife's fur muff; curing the abscess of a distraught patient by pulling out half his mouth; and dodging the challenge of his servant who plans to marry the maid.

An unlikely link is forged with Play Two (as *Leonie* becomes) by Yvonne declaring she is pregnant. This pregnancy proves to be a phantom of the boulevard in a disastrous middle section which implicates, for no very good reason, Miriam Karlin as a chronically unfunny nasal mid-wife and Peter Jones (of all those marvellous radio programmes) as an irate uncle dislodged from his club and his cards. These intruders, in a glimpse of the real Feydeau, treat Lucien like a waiter in his own house.

"I didn't know what happiness was until I married Yvonne, and now it's too late," cries Trevor Peacock's ravaged and hyperactive dentist. But Terry Hands's production swamps him in mistimed business, overall rhythmic and comic incompetence and, *most desperately and disastrously*, the rumbling live ragtime and vaudevillian accompaniments of a female saxophone quartet, The Fairer Sax.

Why these delightful ladies open proceedings by playing Scott Joplin I have no idea. They then occupy Gerard Howland's clumsy revolving set—which resembles an over-decorated antique brass clock, *with cogs teething on the* periphery of dental surgery, conservatory, dining room and bedroom—to blow discreetly through the boring passages (lots of them in Play Two) and to wink at the audience during the intervals.

It is generally held that the wife figure in all these plays was based on Feydeau's abandoned Marianne, but the production fails to relate with any resonance one marital situation to another. *Only* Lila Kaye's gargantuan mother-in-law, sailing on like a street-walker's version of the old Queen Mary in mauve and furs, survives the *false connections*. Trevor Peacock's Play Three Lucien, back in the small hours from an arts ball and dragged up as the Sun King, dripping wet *from the rain, is* understandably relieved to hear of her death.

The final piece, all juice and rancorous acidity drained off shows a bed-time squabble fired by the husband's late arrival and his remembered delight in the nude model's breasts at the ball. His wife shows him hers — am I unreasonable to complain at Janet Dale's coy upstage exposition? Even Linda Thorson, in a Ned Sherrin and Caryl Brahms version of this piece subtly titled *Let's Get to Bed*, had the grace to partially disrobe while turning her back — but all he can say is "On top they're a bit creased — they look like hold-all bags."

Mr Peacock and Miss Dale launch into unconvincing rages of anger and jealousy, as if lighting up at the press of a directional button. These savage minuets have been converted into galumphing polkas. One feels for Br Barnes, a serious Feydeau enthusiast and scholar; which is more than one does for his RSC representatives.

LPO/Festival Hall

David Murray

There is no doubt that *Duke Bluebeard's Castle*, Bartók's early but hauntingly powerful one-act opera, sounds best in the original Hungarian; whether it *works* best like that, given a non-Magyar audience, is another matter. The Hungarian conductor Adam Fischer thinks not, and he had it sung in English for Friday's concert performance with the London Philharmonic. The English text was prudently included in the programme-book. In the event one had to keep a close eye on it, for Fischer's impassioned treatment of the score took small account of his singing principals' situation, surrounded by Bartók's large orchestra instead having it safely confined in an orchestra-pit.

As Judith, Bluebeard's latest wife, Elizabeth Connell had the vocal firepower to get an impressive proportion of her words across, and even to manage a fine variety of dramatic colour: conveying eager innocence in a full Brünnhilde-voice, as she did, is no mean feat. Bluebeard was the American Tom Fox, whose towering frame and saturnine demeanour were visual advantages. Judicious delivery compensated for some peculiar diction ("Judith" was always "Jew-death"), though *the grandest passages of the* role want something more opulent than Fox's slightly hollow timbre.

Fischer's febrile reading made gripping theatre, if less balanced and objective than a full appreciation of the score should be. He rushed the earlier scenes, perhaps thinking that for concert-performance that was needed — but the result was that the dramatic spring wasn't wound up to full tension at the beginning, and over-forceful histrionics later had to make up the difference. The best Bluebeards have more of bleak inevitability than that. Still, Fischer's intense commitment made a distinguished second-best, and the LPO played very well (and very loudly) for him.

The evening had begun with Haydn's Symphony no. 103, performed with similar strengths and weaknesses. Every bar of it was nervily alert, keen, prickly—one's ears were always engaged; the serene gravity of Haydn's manner was sold rather short, with excited tutti inclined to be hasty and flustered. There was a surprise for aficionados: clarinets in the trio of the Minuet, winsome and plausible, where the standard score omits them. I haven't found out yet whether these clarinet-parts were recent rediscoveries or just sympathetic inventions by Fischer.

Saleroom/Antony Thorncroft

The appeal of Alice in Wonderland never seems to falter. On Friday Sotheby's is offering a photograph of Alice Liddell, the inspiration for Lewis Carroll's fantasy, by Julia Margaret Cameron, one of the most highly regarded of Victorian photographers. It carries a top estimate of £5,000.

It shows her as a young woman, posing as St Agnes. The same print was sold at Sotheby's in 1974 for £400, but that was before the boom in photographic images. In the same auction there is a group of photographs taken by Carroll himself, including, appropriately, a portrait of a Miss Kitchin lying on a sofa. It has a £750 top estimate. There are photographs by Carroll of Alice but these rarely appear on the market.

Christie's makes its contribution to the Alice bandwagon on December 3 when an album of nine brown ink illustrations by Carroll (who was, of course, Charles Dodgson, the Oxford mathematics don) come under the hammer. They represent scenes not in the original 1864 manuscript of Alice, which grew as Carroll added more words. He gave the drawings, as he did the original manuscript, to Alice Liddell. They are his own copies of his artist John Tenniel's illustrations. Not surprisingly, such a provenance places estimates of up to £150,000 upon them.

Marlowe and Matura in Manchester

Nicholas Hytner's revival of *Marlow's Edward II* at the Royal Exchange in Manchester is one of the year's outstanding theatrical events: a superb staging of the first English chronicle play that is as modern and outrageous as anything you might devise by mixing early Shakespeare with Joe Orton.

Edward is not weak in the way that Shakespeare's Richard II is weak. He knows his mind and places sexual allegiance above patriotic responsibility. He dies unregretfully, soaked to his knees in "a stenchy dungeon" having anticipated both E. M. Forster's famous 1938 remark about betraying a country before one's best friend and this century's hounding from the throne of another Edward by peers of the realm and prominent clergy.

Only about 20 years ago did critics, led by Harry Levin, cease being squeamish about the play's homoeroticism. Edward's Mrs Simpson is Piers *Gaveston, whose return from* banishment brings Ian McDiarmid's peevish monarch to life: Michael Grandage pushes McDiarmid to the floor, kisses *him full on the mouth in an* act of sexual resuscitation. The emphatic *public* conduct of the affair is what upsets the nobility.

The point of inserting here an Italian masque (devised by Martin Duncan as a Michael Clark parade, courtiers in tutus and bare bottoms) is to demonstrate the king's pleasure in such things; Gaveston uses poetry and music to draw the pliant king which way he pleases. The richness of the text lies also in this study of advancement in favour, the acquisition of political power by the exploitation of sex and personality. The masque gives gloriously full dimension to the play's themes of sexual arrogance and intervention.

No wonder the clutch of barons are straining at the leash to get Gaveston. The production catches perfectly the mood of resentment and indeed confusion, thereby short-circuiting any tut-tutting in the audience. This is a radical strength of an evening which gives full weight to the barons' concern for credibility at court (and national

Ian McDiarmid as Edward II

security) and to Queen Isabella's (Brid Brennan) revulsion at the dalliance of a husband she still loves.

The last major production of the play, in 1969, was a triumph for Ian McKellen who was lyrically extravagant on the few occasions Marlowe's mighty line starts revving up. The Exchange's version, set in a timeless world of greatcoats, leather and street brawls puncturing the barbaric chorales (composed by Jeremy Sams), is more recognisably post-Orton and in*deed post-Howard Baker*. This is a vicious, corrupt society whose leader has postponed the business of office in favour of the anarchic pleasures of art and *company*.

Designed by Tom Cairns and lit by Mark Henderson, Marlowe's world and this remarkable vision of it sucks us in, from the planetary sky hung like a huge tympanum from the roof (a descending lightbulb firmament and terrific rainstorm) to a muddy charnel house below, the grim vaults of Berkeley Castle where the skilled murderer Lightborn (Louis Hilyer) entwines his regal prey in a scene, unparalleled in British drama, of lewd murderousness.

One is continuously delighted by the ingenious practicality of the production. Ian McDiarmid, a marvellous recruit here as Associate Director, never sings or camps around, but goes straight to the heart of the king's rages and weaknesses, making more of a line like "You villains that have slain my Gaveston" than the musicality of "Oh, shall I speak, or shall I sigh and die?" On the return *of* Gaveston from Ireland, manhandled by his barons and wrapped contemptuously by them in his own red welcome carpet, McDiarmid suddenly re*members his passion* and breaks loose, newly swaddled and imperious in scarlet.

In a good cast, Duncan Bell as the rising Mortimer, an icily grinning Machiavellian figure, Peter Wight as the loyal and disillusioned Kent, and Colin McFarlane as a black Baldock, the Oxford gentleman, stand out. Brecht recommended a descent to the mire, an embrace with the butcher. This intelligent, brave and generous revival (almost full text, three hours long) takes you there.

Michael Coveney

★

Contact Theatre, Manchester's repertory theatre of contemporary outlook, is presenting Mustapha Matura's *The Playboy of the West Indies* as their contribution to the Caribbean Focus Festival.

Matura's rewrite of Synge's Irish play, first seen at the Tricycle in Kilburn and subsequently on BBC TV, fits its tropical setting with astonishing naturalness: there are parallels on the realistic level in the occupations, talk of goats, small plots of potatoes, and the influence *of* the sea; and on a cultural level in the superstitions and rituals which pervade both cultures.

The major hurdle for the *young* black *company* which Brigid Larmour, Associate Director, has assembled, is that they have to recreate a late forties Trinidadian community *which no longer exists: it is the* cultural memory of their parents' youth. All the more remarkable that Larmour's production creates an atmosphere *of rural isolation and* rich folklore with conviction and immediacy.

Synge's lilting poetry is replaced by Matura's singing *dialect of vivid metaphors:* Ken (ebullient Treva Etienne as the Christy counterpart) bragging that his father "dropped like a ripe mango." Nettie Edwards's meticulously *detailed* set of golden wood and rush matting for the shabeen, with rice bags, baskets of bananas and storm lamps on packing case tables, even gives off an appropriate smell of baked cane and sack-cloth.

Of the performances, I most enjoyed Eddie Nestor's Stanley, the "English gentleman" fiancé of stooping shoulders and round spectacles; and Faith Tingle's twittering, besotted Alice. Diane Louise Jordan shrewdly establishes Peggy as the moral centre of the play: her last-minute change of heart bringing a sense of tragedy into the wild, absurdist comedy like a swift and dangerous current coming to the surface at last.

Charlotte Keatley

Glorious Things/Croydon

Claire Armitstead

In the depths of the small Warehouse theatre only yards from East Croydon station *Glorious Things* are happening. Dramatist David Allen, who made his mark here with *Cheapside* last year, now turns his gaze forward three centuries from the Elizabethan England of Shakespeare and Marlowe to a Victorian one obsessed with William Blake.

The misrepresentation of Blake by posterity as a pillar of religious patriotism provides Allen with a ready conceit for the sham of 19th-century values: of congregations singing Jerusalem oblivious to the darker symbolism of the dark satanic mills, or secretly seduced by the exotic imagery of Tiger Tiger Burning Bright.

The Victorians are not wholly original whipping-boys, but Allen is a dab hand with the birch. From the opening scene of the hymn—Glorious Things—being belted across the stage by a jungle cleric complete with spear-bearing native by his side, he goes on to demolish the concept of colonial pride, revealing the cleric to be no "primitive methodist" and the native no simple heathen.

Major Cox and his man, Billy, are in fact a sophisticated double act, charlatans to the hilt, who decide to cozen a worthy Lancashire clerk and his wife out of their chapel's funds, beguiling him with promises of power and profit; her with the illusion of sexual freedom. In Caroline, a dynamic performance from *Carolyn Jones, they meet more* than their match: a woman who administers arsenic in her husband's broth and vents hidden passions in pages of *purple prose. Racial* and sexual colonialism are laid side by side at the door of a common enemy — the white male establishment. In a subversion of the accepted *order* it emerges that Caroline and Billy are the strength and the brains of their society, capable of adapting and surviving where their "masters" sink.

To follow his theme through to its conclusion, Allen takes outrageous liberties with plot. From initial scenes of Caroline succumbing to the lure first of the rhododendron bushes, then of London, we are whisked forward 10 years. She becomes *a self-supporting writer*; her impotent husband (a versatile John Moreno) disappears and returns, miraculously transformed by his travels into a *brute with a disfiguring facial* scar, administed—so he tells us — by a jealous whore; Cox's and Billy's fortunes slump, changing a bombastic Sidney Livingstone and a gracefully fastidious Jeffery Kissoon from a perversely attractive couple of conmen to mere figures of music hall fun. There is a murder, a trial, an execution—life reflecting the wildest excesses of fiction—all rendered possible by the conspicuous artifice of a text that blows a sustained raspberry at conventions of dramatic consistency.

The intellectual exuberance of Allen's writing sweeps re*servations aside*, with the help of Ted Craig's smart direction and a backstage crew capable of set and costume changes that would make Concorde look *like a sitting duck. Michael* Pavelka's spare design — of dowdy Victoriana behind an equally dowdy Union Jack curtain — is one more example of the *lengths to which imagination* can be stretched.

East of Vienna/Wigmore Hall

Dominic Gill

On Saturday night the Nash Ensemble's "East of Vienna" series moved, for the greater part of the programme at least, to Hungary. Two purely instrumental works framed a vocal centrepiece of songs by Kodály, Bartók and Kurtág, sung by Adrienne Csengery, who was on still more commanding form, still more intimately engaging, than she had been at her recital in Edinburgh two months before.

The instrumental timbre and the clear, folk-song resonance of the voice are a delight — especially in the Kodály *Fragments* (the collection of Hungarian folk poems which comprises Kodály's op 1) that opened her group. Miss Csengery catches the melancholy of the songs without ever making it sound maudlin; and their irony is sharp, but never dry. If the Kodály songs are melancholy, Bartók's *Three Songs* op 16 are unredeemably sad. Miss Csengery found a flickering warmth in their darkness, muted as it may have been, and a delicate ardour, pointed by her non-vibrato folk-song timbre (she used vibrato with marvellous restraint, for the most part only to highlight *single key notes in a phrase*).

In Kurtág's *Songs of Amy Karolyi* op 22, she was partnered by Britain's new-found cimbalom virtuoso Christopher Bradley; a fine performance, full of ghostly flourishes from voice and instrument, swirls of dry leaves, sudden sparks of memory.

The evening ended with a strong performance, with Michael Collins, of Brahms's B minor clarinet quintet *(east of* Vienna? Ischl, where the quintet was composed, is hardly that), and with a Liszt rarity, to complete the Hungarian frame. Robin Golding suggested in our programme note that because Liszt's Elegy No. 1, orginally scored for the unusual (but characteristically and extravagantly Lisztian) combination of cello, piano, harp and harmonium, was subsequently rearanged for other combinations, there must have been "an element of abstraction in the piece which does not depend of especial instrumental tone colours." He misses the point. The piece *is* its instrumentation, and almost the whole of its value, and the whole of its point, lies in its haunting, bittersweet sonority: each different "arrangement" of the same material *is therefore a different piece.*

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NOTICE

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Floating Rate Notes due 1987

In accordance with the provision of the notes, notice is hereby given that for the six-month interest period from October 23rd 1986 to April 23rd 1987 the notes will carry an interest rate of 6⅜ per cent per annum and the coupon amount per US$5,000 will be US$161.15 interest. Payment date is April 23rd 1987.

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Arts Guide

October 24-30

Music

LONDON

English Chamber Orchestra conducted by Philip Ledger with Jose Luis Garcia, violin and Steven de Groote, piano. Handel, Mozart, Bach, Vivaldi. Royal Festival Hall (Mon). (928 3191).

PARIS

Ustad Vilayat Khan, Master of the Sitar: classical music from the North of India (Mon). Opéra-Comique (4296 0160).

VIENNA

Anna Pfeifer, piano. Haydn, Weber, Chopin. Konzerthaus Schubert Saal (Mon).

Maria Clara Menotti, piano, Scarlatti, Mozart, Schumann, Berio, Franck. Musikverein Brahms Saal (Tue).

SPAIN

Madrid, Autumn Festival ends with The Wallace Collection, a trumpet group playing music by Viviani, Diabelli, Mozart, Altenburg and more recent pieces by Berio, Arnold and an original by Wallace. Teatro Real, Plaza de Oriente. (Thur). (248 14 05).

ITALY

Milan: Teatro Alla Scala: Vaclav Neumann conducting Smetana's Ma Vlast cycle (Fri). Emil Tchakarov conducting the violinist Anne Sophie Mutter in Brahms' violin concerto, and Dvořák Symphony No. 7 (Wed, Thurs). (80 91 26).

Rome: Auditorium in Via Della Conciliazione: Giuseppe Sinopoli conducting Weber's Clarinet Concerto with Vincenzo Mariozzi, and Mahler's 8th Symphony (Sat, Sun). Verdi's Requiem, with the S. Cecilia orchestra and choir, and soloists Julia Varady, Waltraud Meier, Chris Merritt and Jaakko Ryhanen (Mon).

NEW YORK

Merkin Hall (Goodman House): Sylvan Winds. Haydn, Beethoven, Ibert, Français (Mon); Daniel String Quartet. Mozart, Parios, Smetana (Tue mat); The Lark Quartet, Haydn, Libby Larsen (world premiere), Britten, Mendelssohn (Tue); Grant Johannesen piano recital with Gaby Casadesus piano. Fauré, Schumann (Wed); Musician's Accord. Joseph Schwantner, Sheila Silver, Ives, Messiaen, Wade Matthews, Kreiger, Bartok (Thur). 67th w. of Broadway (362 8719).

WASHINGTON

National Symphony (Concert Hall): Rafael Frühbeck de Burgos conducting. Narciso Yepes guitar. R. Strauss, Rodrigo, Falla (Thur). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestral Hall): Lorin Maazel conducting. Hindemith, Mahler (Tue); Berlioz, Stravinsky, R. Strauss (Thur). (435 8111).

TOKYO

Emma Kirkby (soprano) and Anthony Rooley (lute) in concert of English music: The English Orpheus - selection of composers from Dowland to Purcell. Ishibashi Memorial Hall (Tue). (237 9990; 363 0101; 371 2582).

FINANCIAL TIMES
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Monday October 27 1986

Big Bang in perspective

THE DEREGULATION of the Stock Exchange, which reaches its climax with today's Big Bang in the markets, will make Britain's domestic securities business more efficient, less profitable and much more risky.

That is almost invariably the outcome, at least in the short term, of any attempt to liberalise a market, financial or otherwise. In this case many of the risks were unavoidable because technology had already started to undermine the Stock Exchange's monopoly by exposing it to increased international competition. The City's more traditionally minded individuals and institutions may have been slow to wake up to this uncomfortable fact; but it is very much to their credit that when the reality was grasped the institutional landscape of the Square Mile was transformed in less than three-and-a-half years.

This dramatic upheaval was ostensibly precipitated by former Trade Secretary Mr Cecil Parkinson's decision in July 1983 to halt the Restrictive Trade Practices Court's case against the Stock Exchange in return for a commitment to abolish fixed minimum commissions on securities trading. Yet the deal, for which the Bank of England had lobbied strongly in Whitehall, has led to a far wider set of reforms.

The ownership of Stock Exchange firms has been opened up to the banks, domestic and foreign, so permitting new capital to be injected into the business. The dealing systems in the gilt-edged and equity markets have been remodelled, respectively, along the lines of the US primary bond market and the screen-based market run by NASDAQ, the National Association of Securities Dealers Automated Quotations system. Equally important, the leisurely work style of City firms has been replaced by an American work ethic and American pay packages.

Enhanced liquidity

The welcome features of this overhaul include the potential for more efficient capital raising for industry and commerce and for enhanced liquidity for the investors who provide that capital. More open pricing will reduce the amount of poor quality research and eradicate many of the hidden charges fund managers are prone to foist on to their clients.

If the Stock Exchange succeeds in merging with the International Securities Regulatory Organisation, the representative body of the firms that operate in the much larger Eurobond market, it will have taken the final step towards preventing its decline into a backwater of the international securities markets—though possibly at the cost of foreign domination.

There is not much doubt that the new British-owned banking and securities conglomerates will find the going tough. Their US competitors are more familiar with the new dealing systems and have already demonstrated their financial muscle in handling large equity deals outside the Stock Exchange. These are considerable advantages when the Exchange is seeing a huge influx of fresh capital and a big jump in the number of market makers.

The vast increase in competition will inevitably claim some victims, both through mergers and insolvencies. Many of the hurried amalgamations of the past three years may also falter as management struggles to come to terms with the very different cultures of the banking, broking and jobbing businesses that make up the new conglomerates.

Some question the wisdom of allowing the foreign hordes through the City gates. Yet this overlooks the growing turnover in leading British equities being conducted elsewhere by those same foreign houses. Past experience also suggests that this is a sector of the British economy which has reaped genuine benefits from liberalisation.

The Bank of England's open-door policy for foreign banks ensured a leading role for London in recycling the oil producers' financial surpluses in the 1970s and won a substantial share of the fast-growing foreign exchange business in the 1980s. Similarly, the benign attitude of both the Bank and the Government to the virtually unregulated Eurobond market led to London becoming the key centre, in the European time zone, between New York and Tokyo, for international securities trading.

The more serious question concerns the wider risks to the system and to its customers. The Big Bang is one of several examples of deregulation taking place in financial centres around the world. All reflect the desire of governments and central banks to sponsor the financial sector, much as they sponsor the textile or chemical industries. The aim is to win international business from other financial centres by offering a lower level of regulation and cheaper dealing costs.

Different regulators

Yet the reason regulations were imposed in the first place was precisely that capital and financial markets are not like the textile or chemical industries. They have the ability to administer destabilising shocks to the wider economy; and those who operate in them have a fiduciary relationship with their customers, which is open to abuse. The risk in competitive deregulation is that sensible rules can disappear at the same time as anachronistic ones.

A particular worry in London concerns the commercial banks' rush to merge with investment banks. This is a logical business reponse to the trend for multinational corporations to by-pass the banking system and raise money direct from the markets. But it carries the risk of cross-infection; and the different parts of the conglomerates are supervised by different regulators, with attendant risks.

In the case of private investors, who are expected to face increased dealing costs after Big Bang, the risk concerns the effectiveness of the new regulatory structure outlined in the Financial Services Bill in controlling conflicts of interest. The Securities and Investments Board, which will preside over the system, is new and some of the self-regulatory organisations beneath it have little or no experience of regulation. The Board will need luck, and the absence of a sharp bear market, to cope in a difficult period when brokers' profits will be under pressure.

Above all, it is important that both the Big Bang and the City should be kept in perspective. Uncertainty and volatility in the international monetary system currently permit those who live off capital flows to earn above-average returns. But bankers cannot defy the laws of economic gravity by earning more than their customers for ever. Nor is there any correlation between a sophisticated financial system and a successful economy; if anything, hyper-active capital markets impose a short term view on industry and inhibit real investment. In short, financial efficiency must not be allowed to become an end in itself.

THE TRIALS OF FERMENTA

In from the cold—again

By Kevin Done in Stockholm

TO Montedison it must have seemed that every time it was about to shoot, Mr Refaat El-Sayed had moved the goalposts.

The Italian chemicals group has spent over six months talking to the Egyptian-born entrepreneur about a takeover of his controlling stake in Fermenta, the Swedish chemicals and biotechnology group, which he has transformed in four years of hectic growth into one of the world's leading producers of bulk antibiotics.

Last week Montedison's patience finally snapped. It broke off the negotiations, listing a catalogue of Mr El-Sayed's alleged transgressions.

So, after all the twists and turns, it seems that Mr El-Sayed is still in the driving seat at Fermenta.

Instead of Montedison it is Procordia, the Swedish state-owned holding company that is on its way in as the dominant new shareholder. It already controls close to 11 per cent of the votes, and revealed on Tuesday options to increase this to 43 per cent and later, perhaps, a majority. Montedison must now be wondering whether Mr El-Sayed ever seriously intended to sell. Certainly it did not take long last week, in the wake of the Montedison debacle, for Mr Suren Gyll and Mr Olle Enstam, Procordia chief executive and deputy managing director, to be named to the Fermenta board.

At the same time Mr Gosta Bystedt, executive deputy chairman of Electrolux, the Swedish household appliances giant which owns Zanussi of Italy, is resigning as Fermenta chairman.

It is Mr Bystedt who had the uncomfortable job of trying to keep the lid on Fermenta during a turbulent summer which brought the company to the brink of expulsion from the Stockholm Stock Exchange. Three of the Fermenta board's biggest names have resigned in the past nine months.

Fermenta was supposed to fit snugly with the expansive aims of Mr Mario Schimberni, the Montedison chairman, who was seeking to broaden the Italian concern's international presence and expand its interests in pharmaceuticals, agrochemicals and fine chemicals. But he failed to reckon with Mr El-Sayed's version of the coarse art of negotiating.

It was in the first week of July that Montedison announced an agreement in principle to buy Fermenta. Montedison, sure of success, rushed to the Italian stock market to raise cash to help finance the deal.

For Mr El-Sayed, however, the situation was not quite so simple. His announcement that he had agreed to sell out to Italy his entire stake, some 78 per cent of the votes and 44 per cent of the equity in a deal worth in the region of SKr 2.5bn to SKr 3bn ($350m to $400m) now seems to have been motivated by a wish to take revenge on the Swedish establishment, which he felt had treated him badly.

The day after the deal was announced, doubts began to surface in Sweden about whether Mr El-Sayed seriously intended to go ahead. He had written into the agreement the condition that the sale had to be approved by the Fermenta unions, the company's board, and the Swedish authorities.

The Government could hardly stand in the way, when one of the country's biggest corporations, Electrolux, was in the process of swallowing up Zanussi, Italy's leading maker of household appliances.

From the outset Mr El-Sayed was deliberately vague about whether the unions had a right of veto on the deal, but significantly it appeared that he had fashioned a bolthole, should he have a change of heart.

It has been a tumultuous year for Mr El-Sayed and Fermenta, the company he has taken from sales of SKr 95m and profits of SKr 3m in 1982 to sales in excess of SKr 3bn and estimated profits of more than SKr 700m in 1986.

Mr El-Sayed's star reached its zenith early in 1986, when he appeared poised to clinch with Volvo, the flagship of Scandinavian industry, one of the country's biggest ever business deals, which would have put Fermenta firmly at the helm of the Swedish biotechnology and pharmaceuticals industry.

Before the deal with Volvo could be consummated, however, it was revealed that Mr El-Sayed had lied in a prospectus to international investors about his academic qualifications.

The share price crashed as capital markets at home and abroad lost confidence in the business pin-up boy they had helped to create, the immigrant from Cairo, who was voted "Swede of the year" by Swedish Television at the end of 1985.

With its credibility under pressure and its reputation and that of Mr Pehr Gyllenhammar, the group's chairman who had put his personal seal on the agreement with Mr El-Sayed tarnished, Volvo pulled out.

For Mr El-Sayed the collapse of the deal had more dire consequences. It left him with close to SKr 1.4bn in personal debts, which he had built up through buying Fermenta shares in the market in preparation for selling them on to Volvo.

All year these debts have been a millstone. With the first repayment of around SKr 540m due this December, it was clear that he would have to sell at least part of his holding.

For a few months little went right. He felt forced to step down as managing director in an attempt to quell the turbulence and uncertainty that surrounded the company, and he moved instead to the post of deputy chairman.

The change did nothing to soften the newly tough attitude of the authorities to Fermenta, however, and at the end of May the company was nearly expelled from the Stock Exchange. "Fermenta has been as close to expulsion as a company can come," said Mr Bengt Ryden, head of the Stockholm bourse.

But even as he faced the backlash of the establishment, Mr El-Sayed never lost the support of the foot soldiers among his shareholders. The Fermenta annual meeting, held in a vast indoor sports arena close to the company's Swedish production plant, more resembled a religious revivalist rally than a meeting of shareholders anxious to interrogate management over past shortcomings.

Just as he seemed to be overcoming the immediate turmoil, the next blow came. Pharmacia, the biotechnology and pharmaceuticals company, where Mr El-Sayed was on the brink of winning control through the earlier Volvo deal, announced that it was taking over Leo, another pharmaceuticals company owned by Volvo. The plan had been hatched at the beginning of the year by Mr El-Sayed and Mr Gyllenhammar, but now Fermenta was out in the cold.

Furious, Mr El-Sayed boarded the next plane for Milan. He was again apparently determined to do a deal with Montedison.

After a weekend of negotiations he and Mr Giorgio Porta, Montedison's managing director for industrial policy, now back in Stockholm, announced the agreement in principle for Mr El-Sayed to sell out lock, stock and barrel. He would remain only as a personal consultant to Mr Schimberni.

At a press conference Mr El-Sayed, clearly upset and his rasping voice more hoarse and emotion-charged than normal, said he was selling because of "terrible disappointment over mistreatment inflicted by Sweden's business establishment."

Mr Refaat El-Sayed: "I broke the rules. As long as I was expanding outside the country, nobody cared about it"

Mr El-Sayed feels he was frozen out because he had violated establishment etiquette in trying both to own and run a major corporation. He did not belong to any of the established power blocs in Swedish business and with his bid for control of Pharmacia he over-reached himself.

"I broke the rules. As long as I was expanding outside the country no one cared about it. I was too fast.

"I felt when I walked on to the stage with Gyllenhammar that something was going to happen. The big guys were there watching with cool eyes. If this deal with Volvo had succeeded I would have been one of the richest and most powerful men in Sweden. I would have turned all the rules upside down."

The fact that Mr El-Sayed had packed the Fermenta board with establishment figures helped him enormously when the wind was with him. But when the storm broke over his missing doctorates the board was not ready for a fight with Volvo. He was persuaded both to resign as managing director and to hand over control over the divorce negotiations with Volvo. "It was a big mistake. Usually when I am squeezed into a corner I make the right decisions, but this was wrong."

The ink had hardly dried on the agreement in principle with Montedison, however, when Mr El-Sayed started listing possible obstacles.

The Montedison offer was a big step forward for Mr El-Sayed in one important respect, however. One of Europe's leading chemicals companies was willing to pay a considerable sum to acquire the group. It was not the house of cards some had claimed it to be. The offer also began to smoke out alternative Swedish suitors.

Towards the end of August the Fermenta unions rejected the Montedison bid. They said they wanted Montedison to make a phased entry into the company, initially with only a minority stake, and that Mr El-Sayed should continue to lead the company.

According to Mr Porta, Mr El-Sayed signed an agreement with Montedison on August 30 which stipulated a gradual take-over by the Italian group with options and prospects for participation by Swedish institutions.

But 36 hours later, it was all over. "On Saturday night you sign an agreement. On Monday morning you are informed of a *fait accompli* with five separate other deals and 35 per cent of Fermenta shares sold and options to Swedish institutions and references to the Montedison deal not going through," complains Mr Porta. These deals had "violently changed the nature and structure of our agreement."

For Mr El-Sayed, however, the Swedish deals took the millstone from his neck. He solved his immediate debt problems. He found an alternative potential long-term industrial partner in the shape of Procordia, which wants to become more international and expand its chemicals interests. He found a way to stay on himself as a large shareholder and remain in executive management control; and he dealt himself a whole new hand of cards for negotiating with Montedison.

In Sweden he was hailed again as the master dealmaker. Some of the gilt was taken off the gingerbread, however, when it was revealed 24 hours later that Fermenta had put together press releases containing allegedly misleading information.

At the same time Montedison could see Fermenta changing shape before its very eyes. Earlier this month Fermenta announced a letter of intent to sell the bulk of its agrochemicals business in the US—amounting to no less than a third of group turnover—to Monsanto, the US chemicals group.

With the Fermenta board refusing to release financial and technical information requested by Montedison on the grounds that they involved commercial secrets, the Italians finally threw in the towel.

Having survived Volvo, Montedison, the Swedish establishment's cold shoulder and the Stock Exchange's wrath, Mr El-Sayed can afford to smile again this week as he sets about restoring his battered credibility.

Fermenta seems intent for the time being on consolidating its activities in bulk human antibiotics and in animal health. During the summer it paid $17.4m for a 51 per cent stake in TechAmerica, a medium-sized animal health company based in Kansas.

The entry of Procordia as a substantial new shareholder—it has two seats on the Fermenta board—opens the way to much closer co-operation with the state holding company's troubled pharmaceuticals subsidiary KabiVitrum, which could in the long-term give Fermenta a link from its traditional fermentation-based production to new drugs produced through genetic engineering. KabiVitrum has launched a growth hormone, which is only the world's second drug after insulin to be produced using DNA technology. Mr El-Sayed is not flying as high as he was a year ago, but he is yet to be grounded.

Men and Matters

Campeau mounts border raid

With his lightning strike for control of the big US retailer Allied Stores (more than $4bn turnover last year) Robert Campeau, aged 62, may be about to join the small band of Canadian entrepreneurs who have left an indelible mark on US business.

Campeau and his family-controlled Campeau Corporation, the Toronto-based property developer, scooped up half of Allied's shares in a few minutes last Friday morning after a seven-week takeover battle. Allied is contesting the validity of the purchases.

If Campeau can shake off Allied's legal challenges, he will have achieved the diversification he has sought ever since his unsuccessful bid six years ago for Royal Trust, Canada's leading trust and loan company.

The battle for Royal Trust, which pitted the maverick French Canadian against pillars of the Anglo-Canadian establishment, established Campeau's reputation as a David willing to take on corporate goliaths. Allied's revenues, which come from such well-known chains as Bonwit Teller, and Brooks Brothers, are more than 20 times higher than those of the Canadian company.

Campeau began his working life as machinist with the nickel company Inco in Northern Ontario. A modest housebuilding business took him into property development. In the 1970s his Campeau Corporation became a leading provider of office space to the federal government in Ottawa. In the process he became closely identified with the then Liberal government of Pierre Trudeau.

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Silent service

For those busy, but sensitive people who hesitated about getting a radiopager because of the noise of the bleep the answer is at hand.

Air Call, the British radio communications company, is testing a vibrating radiopager in market trials this autumn.

The idea is that every time there is a message the radiopager will start vibrating rather than bleeping. I am told that the vibrations are of a gentle, almost soothing kind —it isn't akin to having a fish flapping about in your pocket.

Sweet biscuits

Antoine Riboud, aged 67, has had to wait a long time before receiving the public recognition that comes from being named the French Manager of the Year.

Patience and prudence are two virtues that he often praises. And in France they are both associated with the Lyons region from which he comes.

Riboud is the only French industrialist to have shifted a major company out of one activity and into another successfully in recent times.

When he took over BSN it was still a manufacturer of flat glass. It is now by far the largest food group in the country with a turnover of FFr35bn annually.

The award is a recognition of Riboud's long-term strategy. It also marks his deftly-managed acquisition this year of Generale Biscuit, and the overall improvement in the group's results.

Slightly built, with a shock of white hair and a roguish humour, Riboud is a formidable negotiator. When he wants more time to reflect he cocks his ear as though he has failed to understand—but his brain is racing full ahead with the answer.

He comes from a family of managers. At the same time his belief in maintaining good labour relations, and seeing that his employees are well looked after, has kept him in close touch with the socialist.

Riboud got control of Generale Biscuit after Carlo de Benedetti, the Italian industrialist, snatched Buitoni, the Italian food group, from under his nose in an earlier takeover battle.

European style

German fashion designer Reimer Claussen, aged 26, has booked himself a ticket to the top, if precedent is any guide.

At a weekend reception in Krefeld—a suitably glittering occasion—the Berlin designer received the European Silk Commission's Golden Spinning Wheel Award. Previous winners Cardin, Courreges, Ungarro, Lagerfeld, and Joop, have all become international figures in the rag trade.

Claussen, said Hans Wallach, the commission president, is a man who, "made German fashion desirable abroad by possessing just that special touch of German thoroughness."

Claussen says that luxury materials such as silk, cashmere, leather, and linen, form the basis of his fashion philosophy. He "wants to create something new from the traditional."

He might have been less sanguine had he known of the battle that went on in the jury room before he was selected. The three women on the panel wanted a woman victor irrespective of merit.

Wallach firmly quashed that notion. "I told them that we must pick the best person whoever it is."

Reverberations

Birmingham has lost the Olympics. But England's Second City has just had a taste of financial high life at the moment of the Big Bang with several hundred Midlanders quaffing champagne by courtesy of local stockbrokers Albert E. Sharp.

Sharp is a kind of Cazenove of the provinces. It remains an independent partnership, while all around firms are being snapped up by bigger groups.

Senior partner Simon Sharp reckons that at least 30 banks and other potential buyers have left their calling cards. But it seems that none has been able to tempt the partners to sell out.

Sharp insists "We are determined to remain independent."

Whether the champagne will keep flowing after Big Bang is less clear. But Sharp says the firm has never been busier.

If it comes to a competitive crunch, Sharp's Birmingham office rental of just £4 a square foot must make many a rival in London's Square Mile weep.

Detonator

The Savoy Hotel, London, has created a new cocktail to celebrate the Big Bang.

It is a blend of vodka, eau de framboise, vermouth, and Southern Comfort, served over a bed of ice.

On the basis of a technique learned in Kentucky years ago my advice is to cool the four ingredients in separate silver shakers, throw away the first three, and drink the Southern Comfort.

Observer

Summits now and then: Reagan and Gorbachev in Reykjavik, Roosevelt and Stalin at Yalta

Foreign Affairs

At the headland of history

By Ian Davidson

LOUD CONTROVERSY over the Reykjavik summit is still rattling the windows on all sides; conflicting analyses of what might have been agreed has been further confused by the tit-for-tat expulsions. But my hunch is that we may be rounding a headland of history where the tide race produces alternating stretches of smooth and choppy water.

Some analysts argue that President Reagan showed that he is still too fondly committed to his Star Wars dream, and perhaps too deeply ambivalent about the political implications of a major arms control deal with the Communists, to be willing to grasp the opportunities offered by Mikhail Gorbachev; others, that the virtual agreement on Euromissiles would have been a body blow at Nato strategy, but must be applauded by Nato defence ministers because they dare not disown it. But I wonder if the real significance of that encounter may not be larger than the details of a package that might have been.

Manifestly, everyone, including the participants, was amazed at the scale of what was almost agreed in two short days at Reykjavik. That scale and that amazement are the real clues to the significance of the event.

For 40 years, geo-political relations have been dominated by a hostile East-West confrontation, which has been centred on Europe, though its ramifications have rippled to the far corners of the earth.

Many factors have sustained this confrontation in practice, and given force to the assumption it was structural and permanent. Most of them have been directly linked to Soviet rhetoric and Soviet actions: the conquest of half of Europe and its absorption into the Soviet empire; the maintenance of a vast war machine in Eastern Europe, based on military doctrines which were explicitly aggressive, not defensive as with Nato; explicit threats to the security of West Berlin; implicit challenges to the political systems of Western Europe; and a tacit ideological claim to a revolutionary right to "bury" the West.

By now, of course, the worst examples of Soviet aggressiveness in Europe lie some way in the past. The last really serious Berlin crisis was 25 years ago; the Hungarian uprising of 1956 was put down by Russian tanks, but not the Solidarity movement in Poland in 1980-81. Nevertheless, memories are kept alive both by the continuous strengthening of Soviet military capabilities at levels markedly greater than those of Nato, and by the Soviet invasion of Afghanistan nearly seven years ago.

It is also true that the nuclear arms race, the most *potent symbol of the confrontation* between East and West, has been given impetus not only by Soviet determination to achieve parity with the US (which it did by the early 1970s), but also by America's convoluted intellectual and technological efforts to find ways of compensating for the breadth of the Atlantic and for Western Europe's conventional inferiority, by developing more accurate ballistic and cruise missiles, with smaller warheads, for aiming at military rather than civilian targets.

Against this 40-year background, the significance of Reykjavik is that the East-West confrontation, which had previously seemed structural and permanent, may, *if the superpowers so decide*, be susceptible of radical change on several levels: a reduction in political confrontation, a sharp reduction in strategic nuclear arsenals which would lead to some degree of shared force planning, an even more dramatic reduction in nuclear arsenals in Europe.

In the event, of course, the two leaders did not agree on this dramatic programme of change at Reykjavik. Ostensibly, the only obstacle to a deal was continuing disagreement about Star Wars, though for all we know, one or both of them might have had cold feet. But if they nearly agreed on a momentous programme of change, as they claim, they must have thought, at one point in the weekend, that it could be acceptable. Now there could be two reasons why the superpowers might take the risk of radical changes in arrangements which have kept the peace for 40 years: because it seemed safe to do so; or because the status quo seemed increasingly unsustainable; or both.

Few people seriously expect a frontal Soviet attack across the north German plain: despite their conventional superiority, the risk of failure would still be very large, the costs of failure horrendous; it is difficult to see anticipated benefits which would be large enough to justify the risk and potential costs. Conversely, no Soviet leader can imagine that Nato, with its conventional inferiority, is about to launch an attack in the opposite direction.

Armed conflict might more plausibly result from the erratic escalation of some local or peripheral disturbance; but this danger is more easily pre-empted by political communication than by tanks.

In any case, Gorbachev's declared top priority is the modernisation and improvement of the Soviet economy. For this he needs a calm international environment, the chance of freer international trade, and the opportunity to transfer resources out of defence into the civil sector.

Naturally, the Russians are not lambs in sheep's clothing; on the contrary, they are ruthless, provided the advantages are large and the risks negligible. But where nuclear weapons are in play, the risks are immeasurably vast.

When nuclear weapons were fairly new, Soviet strategists used to write about them as if they were just a bigger type of bomb, to be used in combined arms warfare; but in recent years, their successors increasingly stress the option of conventional warfare, without the use of nuclear weapons. Like their Western counterparts, they may be finding it increasingly difficult to envisage a controllable nuclear war.

Anxiety over the usability of nuclear weapons is much more publicly expressed in the West. *Four years ago, Robert* McNamara, George Kennan, McGeorge Bundy and Gerard Smith urged reduced dependence on nuclear weapons, and argued that Nato should adopt a No First Use policy. Before that, Henry Kissinger caused consternation by telling Western Europeans that they should not count on America to use its strategic nuclear umbrella to protect them. Strategic analysts have warned that nuclear war could quickly become uncontrollable, scientists that it could cause a life-destroying nuclear winter.

This does not mean that nuclear deterrence does not work; but as the problems grow faster than the solutions, it just seems increasingly difficult to believe in it as a controllable adjunct to conventional defence. In only one case does nuclear deterrence seem credible and rational: as the threat of second-strike retaliation for direct nuclear attack. Which leaves a large question-mark over the defence of Europe.

The package nearly agreed in Reykjavik throws a stark light on this quandary. The elimination of all long-range Euro-missiles, and (in the Reagan blue-print) the elimination of all ballistic missiles, would mean that both superpowers would enjoy sanctuary against short-warning missile attack; the Star Wars anti-missile defence programme would become superfluous. They would still remain vulnerable to nuclear *attack, but only with* slow-flying bombers and cruise missiles, against which it should be possible to muster a plausible air defence. Western Europe, by contrast, would remain under threat of Soviet superiority in conventional forces.

In the end, nothing was settled at Reykjavik; the negotiating process went wrong, the moment passed, and the two superpowers are now back in a phase of mutual acrimony. But the words *indicating* that *both* of them could contemplate radical change have been spoken, cannot now be unspoken, and will be a permanent temptation. Sooner or later, they will get together to negotiate arrangements for their reciprocal security which look more reliable than those they have today.

Mr Gorbachev's need to reduce the burden of defence is likely to be permanent; far from closing the door to negotiation, he will do everything to adopt a posture of sweet reasonableness. President Reagan may have second thoughts about the desirability of a grand deal with the Russians, but he will be under serious pressure. Congress will cut his defence budget and in particular his Star Wars budget, and Congress will keep up the pressure for arms control; who knows, before his time is up, the President may have to pay a price for his budget and trade deficits that would severely restrict his international freedom of movement.

It has often been argued that one day, the Americans would take their troops home; in the long run, perhaps they may. But the implication of the Hofdi House package is that they might have an early preference for enhancing their own security by negotiating partial nuclear sanctuary with the Russians, even if this meant reducing their nuclear commitment to the defence of Europe.

Such a development would not necessarily be alarming for Europe, but it would require the Europeans to take more responsibility for their own security. Alarmists will point to medium-term shortages of manpower, and to the pressures on European budgets.

But the first and most important problem facing any attempt to adapt Europe's security arrangements to new circumstances would not be money or manpower but the attitudes of Europe's two nuclear powers. The French would have to recognise that their chauvinism, the British that their Atlanticism, have both been serious obstacles to the evolution of viable European policies, and have both helped perpetuate Europe's dependence on the superpowers.

Lombard

Italy's old-style capitalism

By Alan Friedman in Milan

CONSIDER the volatile world of Italian capitalism: there have been so many shake-ups in the past couple of years, involving such news makers as the Agnellis, De Benedettis, Ferruzzis, Montedisons, Mediobancas and other household names in Milanese high finance that it almost looks as if this strange and dynamic country is undergoing a real structural transformation.

It is, but it isn't. It is very much the vogue in Italy to speak of the changing nature of private sector power. Mediobanca, that old war-horse of *ancien regime* Italian oligarchic business practices, looks like a shadow of its former imperious self. Carlo De Benedetti, who until very recently looked like a challenger of the old order, seems pretty well co-opted into the establishment.

Montedison, where Mr Mario Schimberni, the chairman, has been preaching about the rise of "public companies" in Italy to anyone who will listen, has been virtually taken over by the Ferruzzi agro-business group, controlled by the Gardini family. Ferruzzi's 22 per cent equity stake, under Italian conventions, gives it effective management control.

The simple truth may be that Italy, the world's seventh biggest industrial economy, just is not ready for modern capitalism yet. Any stockbroker or financial journalist who knows the Wall Street and London markets will find Italian financial practices still several years behind.

The Italians have certainly done a lot in the past three years: the corporate sector has been financially and industrially restructured, profits are still rising by 35 per cent a year on average, more companies are consolidating their accounts (there are anomalies such as Pirelli, a multinational which still will *not consolidate*). The Milan bourse has seen its total capitalisation jump five-fold from $28bn (£19.8bn) to $137bn since the start of 1984. Corporate finance is becoming more sophisticated.

It is not enough, however. As Mr Schimberni wearily pointed out the other day, 96.2 per cent *of Italian companies are still* controlled by families, even if some of the families have big holding company structures to mask their presence. The family of Mr Gianni Agnelli, the Fiat chairman and owner of 41 per cent of Fiat shares, for example, has shareholdings which account for something like a third of the total capitalisation of the Milan bourse.

The three million small investors who have piled into the booming Milan bourse in the past year or two represent a revolution in the Italian market. But with quoted companies on the bourse having an average of only 15 per cent or 20 per cent of their shares floating publicly, the small investors are mainly along for the ride.

There is an inherent contradiction in the views of an Agnelli, for example, who on the one hand makes use of Deutsche Bank's highly sophisticated (*although clearly not* flawless) Euro-equity distribution system to place $2bn of Libyan shares in Fiat and on the other *hand scoffs* at *stock* market takeovers at home which challenge the old balance of power.

On the one hand, Fiat's financial men try to conform to practices in the international capital markets; on the other, Mr *Agnelli announces*, with relief, that the arrival of Mr Raul Gardini as the leading Montedison shareholder is a *good thing* because the Gardinis are "a grand family."

Another area which requires urgent attention in Italian finance is the problem of insider trading. The Milan bourse is riddled with insider dealings which, were they to take place in Wall Street, would be punishable by law. The consob stock-market regulatory authority, although making an effort to supervise, needs teeth.

Italy's financial markets are modernising, but the process is too slow for an economy as dynamic as this one. Three men — Gianni Agnelli, Carlo de Benedetti and Raul Gardini — now control Italy's four biggest companies (Fiat, Montedison, Ferruzzi and Olivetti) with $41bn of combined turnover.

Italy deserves a more pluralistic corporate sector, but there is still a long way to go.

Letters to the Editor

Technology in Europe

From the Vice-President, the European Parliament, and Mr C. Piquer, MEP.

Sir,—Your article "Technological collaboration—now for the hard part of the struggle to compete" (October 21) opens the act on the difficult weeks between now and early December when the programme for the next five years of European research and technological development has to be settled under the UK presidency of the European Community.

Your article raises many issues and gives many views but offers *no* judgments. The time, however, has come for decision.

The heads of state and *government* in Milan, July 1985, decided the need to increase European technology substantially to meet to some degree, *massive* US and Japanese expenditure on research. Industry has repeatedly backed up this decision through UNICE (the *Union of Industry Federations* of the European Community), April 1986, and recently confirmed, and through IRDAC (Industrial Research Directors' Advisory Committee).

Mr Geoffrey Pattie, MP, British president of the Council of Research *Ministers*, said recently that if research expenditure is to be justified other than on a direct return on *investment*, a *different* calculus must be found. That calculus is clear; every European project brings technologies *of companies* and *universities* together across the frontiers, and it costs an additional 25 per cent to collaborate *across frontiers, in order to* build a European pool of technology responsive to the European market as a whole.

There have been numerous joint ventures arising directly out of such projects between companies who before had no relations. Europe needs more such associations of companies to exploit its technological potential.

We agree that national technology programmes need periodic adjustment which may involve standstills and even cuts in public expenditure. But national programmes are already well established and substantial. Europe's programmes are in their infancy, and a cut or standstill now would in effect kill off the very new beginnings *in European micro* electronic's (ESPRIT) answer to Japan and IBM, the first generation of truly European telecommunications (RACE), introducing new technologies to industry (BRITE), because unlike national programmes they are too small to survive such treatment.

In the past four years the European *Community spent*, after accounting for inflation, Ecu 4.4bn. The new five year programme proposed by the Commission amounts to Ecu 7.7bn, starting at Ecu 800m in 1987. Many member states support this, but three, France, Federal Republic of Germany and the UK, as you say in your article, look for reductions to Ecu 3.5bn, Ecu 4bn, Ecu 5bn or Ecu 5.5bn. This is not sufficient to establish even a modest technology base in Europe.

In the European Parliament, on all sides, we are profoundly concerned by these suggestions which amount to savage cuts in real terms. Funding of Ecu 5.5bn itself would mean stagnation with no growth at all, which would seriously undermine Europe's efforts to catch up with US and Japan.

Claus Toksvig,
Carlos Robles Piquer,
Strasbourg.

Surge in house prices

From Mr P. Eggleston

Sir, — John Muellbauer's article (October 23) provides a plausible diagnosis of the *current bout of wage inflation* in linking it with the recent surge in house prices.

I would suggest, however, that he *has overlooked the* fundamental cause of the increase in house prices, i.e. the surge in demand by first-time *buyers resulting from the* baby boom in the early 1960s.

Now that this demand is tailing off, house prices and wage inflation are beginning to stabilise. It is not unreasonable to expect that during the next five years the rate of wage inflation will be considerably reduced without the severe measures proposed by Muellbauer.

Patrick Eggleston,
3 Grandison Road SW11.

Steel sheet deliveries

From the Chairman, G. F. E. Bartlett.

Sir,—Concern is rightly expressed about the many factors which are *currently operating* to increase manufacturing costs, and which can only lead to a loss of competitiveness and therefore loss of jobs.

Managements are frequently blamed for failure to improve efficiencies but there are limits and some reasonably stable and rational basis for planning is needed.

This company, not very large, depends upon supplies of stainless steel sheet of which our estimated purchases in 1987 may well exceed £1m. It is clear that the European steel cartel is *imposing quotas which* keep stockists so short of supplies as to make the guarantee of future required deliveries impossible. The object of this manipulation of the market is to create an artificial shortage and to force through price increases of 7 per cent to 10 per cent in January 1987, coupled with a warning of further like increases in April 1987. This indicates an aim in 1987 of price rises of over 20 per cent. What are we to tell our customers, the ultimate end users, who understandably expect price increases to bear some relationship to current inflation rates?

I hope that your report (October 18) that Karl-Heinz Narjes, European Commissioner, is determined to end the artificially contrived and *fundmentally* destructive policies of the members of Eurofer is correct. Quite apart from moral and legal considerations, it surely cannot be intelligent for the European steel industry either to destroy its own customers or to cause them a serious setback, at least until they make new friends in, say, Brazil or South Korea.

James Campbell.
Maylands Avenue,
Hemel Hempstead, Herts.

The cost of a commercial

From Mr N. Jones

Sir,—Feona McEwan's piece (October 23) on the huge sums *paid for TV commercials ends* by arguing that production houses "aren't on the whole greedy." The rest of the article suggests someone clearly is. The £80,000 average quoted for a half minute advert would produce a good documentary for Channel 4.

It might be a different kind of person is required to work on commercials—*yet* I find that people who work on them will probably be on a documentary or an industrial film for their next job. The hairdresser's £200 is simply a bluff waiting to be called. People expect more for working on a commercial—for no apparent reason.

It would indeed be ironic if a non-union company like IBM were to pay through the nose for an advert because of union rules. Yet these "rules" have as much legal validity as any other industry's restrictive practices. If a job called for New Zealand in January then the client company should stipulate local hire—and ignore the howls of protest from producer associations.

Sponsored films used to cost far more than they now do. *Deflation may yet come to the* commercials' companies. There is no shortage of talent in any sphere. Any industry with an 18 *per cent inflation rate is* clearly expert at keeping outsiders from close analysis. There is nothing inherently *complex about film-making that* an intelligent human being cannot fathom. A phoney mystique surrounds the commercial—the *consultants should start* by comparing its costs with a Channel 4 production or a corporate video.

Nicholas Jones,
Quanta,
4th Floor,
74 Newman Street, W1.

Balloting for TSB

From the Communications Controller, TSB.

Sir, — It has been suggested that the method used for selecting successful applicants for the TSB Group share issue was not democratic. To set at rest the minds of those applicants who did not receive TSB shares, an explanation of how balloting was carried out might be helpful.

Sorting took place at the six receiving banks. All applications were sent directly to the receiving banks by post or after alphabetical sorting at the collection points. At each receiving bank the applications were handled in a single mass and there was no possibility of showing favour to those coming from a particular source.

In sorting, the receiving banks checked the validity of each application — then placed them in groups according to the number of shares applied for. The sorted applications were bundled into batches of 50.

When it was decided that a ballot was necessary, half the bundles of applications were selected at random and set aside. The remainder were allotted shares — no reference was made to the indentity of individual applicants.

The allocation was supervised by our sponsoring bankers, Lazards. Given the volume of applications—a massive 3.7m public and 3.1m priority forms were handled by the receiving banks — and in the time scale, this was a fair method.

Cases where whole families had all their applications either included or excluded in the ballot do not appear to be widespread. The amount of handling involved before batches were bundled made it unlikely that applications, even for identical amounts or from the same family, would stay together during the process.

R. C. Bing,
25 Milk Street, EC2.

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FINANCIAL TIMES

Monday October 27 1986

OVERSEAS MOVING BY MICHAEL GERSON 01-446 1300

Roderick Oram on Wall Street

Mayday echo for Big Bang

WHILE the world knows Mayday as an internationally recognised distress call and a holiday honouring workers, Wall Street knows it as May 1 1975, the day fixed brokerage commissions were abolished. In adopting the name, the US financial community knew the party was over but it largely dismissed the gloomiest predictions about the hangover.

Change turned out to be much more distressing and costly in the short term and far more profound and profitable in the long term than months of preparation had led brokers to expect.

Yet for all that, Mayday itself was curiously an anti-climax away from rumour-mongering brokerage house trading desks. On the floor of the New York Stock Exchange business seemed almost normal, recalled Mr Gregory Gavin, then and now a specialist who executes trades. At least traders, unlike in London this morning, still had their familiar old procedures. The Dow Jones industrial average rose 9.62 points to 830.96 on volume of 20.66m shares.

The NYSE, as if to salute defiantly the 183-year golden age of fixed commissions, announced on the first day of the rigorous new regime that its members' profits had rocketed to $287.9m in the first quarter of 1975 from $49.2m a year earlier.

The New York Times suggested in its May 1 edition that Mayday "may turn out to be the non-event of the year." Its report the next morning was confined to a low-keyed piece in the business section.

Greater prominence was given to Mr Paul Volcker who "often took a brooding pose" in the press conference on May 1 announcing his nomination as president of the Federal Reserve Bank of New York. The Times profile of the man who was to become one of the most powerful men in Washington as chairman of the Federal Reserve Board said he had a reputation among friends as "the best monopoly player in the world."

In the weeks leading up to Mayday, there was certainly widespread concern that research, no longer sustained by fat brokerage fees, would shrivel and that small investors, losing their right to trade at the same cost as the rich and mighty, would flee the market.

But discount brokers' intentions of knocking 40 or 50 per cent off commissions were deemed reckless while the prophecies of Jeremiahs that fees would fall 70 per cent were dismissed as nonsense. Goldman Sachs was not alone in believing it could keep the discount to 8 per cent.

"We spent three months before the day in meetings to decide where we were going to hold the line," said Mr Dan Marciano, now senior vice-president of equity trading at Prudential Bache.

Come Mayday, all the preparation "meant nothing" as fees tumbled "far below our wildest nightmares," he said. Word swept the market that cuts of 20 per cent were offered, then 30 or 40 per cent.

Very rapidly over subsequent weeks full service brokerage houses found themselves having to accept commission rates as low as those discount houses had daringly proposed.

The worst off securities houses found their brokerage fees, which typically had accounted for just over half their revenues, slashed by 50 per cent. Consolidation, diversification and injection of new capital from outside the industry to meet the challenges of the new low fee/high volume business was inevitable.

In 1975 the 785 members of the Securities Industry Association did less than $15bn of business on $3.7bn of capital. This year its 500 firms will turnover $36bn on $22bn of capital.

Research has thrived – small investors abound but indirectly through, for example, mutual funds – and the ever-more competitive market is dominated by institutions.

The few that did bet heavily on a radical shift away from traditional exchanges were wrong footed, recalled Mr Peter Dapuzzo, now head of Shearson Lehman's worldwide retail equity operations, rallying his troops in London on the eve of Big Bang, he said his firm, which merged with Shearson in 1978, geared up for the fledgling electronic over-the-counter market. Although that market has thrived, the NYSE and other floor-based exchanges have clung tenaciously to the "open out cry auction." The NYSE's record daily volume of 240m shares, set September 12, was 12 times the Mayday turnover.

Some firms which led the charge on May 1, 1975 have lost some of their lustre. Merrill Lynch, which was one of the biggest, most enthusiastic and best prepared on Mayday, is vulnerable today to takeover.

Eurotunnel share placing falls short of target

BY ANDREW TAYLOR IN LONDON

SENIOR executives of Eurotunnel, the Anglo-French Channel Tunnel consortium met in London yesterday to try to rescue its £206m ($295m) international share placing which fell short of its target on Friday.

The shortfall is believed to have occurred in the UK and also in the US where a number of major institutions are understood to have delayed confirming their pledges after they became aware that British institutions were falling short of their £70m target.

By yesterday it was thought the British shortfall was around £10m although some estimates put the figure higher. Around 30 British funds are understood to have pledged to support the issue with individual amounts ranging from under £3m to £5m.

In addition Eurotunnel is seeking to raise £70m in France with the remaining £60m spread roughly equally in three tranches between the US, Japan and the rest of the world.

The placing had been expected to be concluded on Friday although the official deadline for subscription is not due to close until Wednesday. The consortium said yesterday that it was disappointed not to have raised the money by now but it remained confident the issue would be concluded successfully.

The French and Japanese issues are not expected to cause a problem and it would be surprising if £20m could not be raised from the rest of the world.

The consortium's task will be to try and drum up the remaining amounts it needs to find in Britain and to try and prevent support fading elsewhere, particularly in the US where major institutions are waiting to see how the rest of the placing fares before deciding whether to pitch in themselves.

The British Government has denied that it intends to lobby institutions to try to persuade them to support the issue. It stressed yesterday that the tunnel was a private project and must stand on its own two feet.

Nonetheless, ministers and the Governor of the Bank of England, who was informed on Friday of the likely shortfall on the British side, are likely to be disappointed by the turn of events.

Even if the shortfall is made up in the next few days, the project's credibility is likely to have been damaged by the apparent reluctance of British institutions to support the project in sufficient numbers.

Commission may probe Far East exports of microwave ovens

BY CARLA RAPOPORT IN TOKYO AND TIM DICKSON IN BRUSSELS

THE EUROPEAN Commission may launch an anti-dumping investigation into microwave ovens imported from Japan, South Korea and Singapore.

The move, which follows an industry complaint filed earlier in the year, will be significant as a rare example of Community action against Far Eastern consumer goods as opposed to industrial products.

It is expected to embrace Korea because that country's consumer electronics industry is one of the fastest growing in the world, and Singapore because it has become a prime production site for Japanese companies seeking to shelter from the effects of the high yen.

The European Commission in Brussels refused to make any official comment yesterday, but lawyers close to the case expect the action to be launched by the year-end.

Japanese companies see the move as a direct attempt to promote further investment in Europe. Microwave ovens are the latest in a string of Japanese products which have been investigated for alleged dumping. Some 11 of these investigations have resulted in anti-dumping duties. In most cases, Japanese companies have subsequently started or expanded production of these products in Europe or southeast Asian countries.

The Commissions' move is expected to be received angrily in South Korea, where capacity to build microwave ovens is being rapidly increased. South Korean microwave ovens are expected to account for about one third of Europe's total demand, which is estimated to reach 3.1m units this year. The main Korean producers are Samsung Electronics, GoldStar and Daewoo. Earlier this week, Samsung announced plans to produce microwave ovens in the UK.

"This will be very damaging for Korea because the country is targeting exports to Europe," said Mr George Robinson, an analyst for W. I. Carr in Seoul yesterday.

Japan's three major microwave oven producers, Matsushita Electric, Sharp and Toshiba, have or plan to have microwave oven facilities in Europe. Japan this year is expected to export 8.2m units of microwave ovens worldwide, with the bulk going to the US.

Matsushita, which sells under the National and Panasonic brand names, said yesterday that it will start production of microwave ovens from February next year at its Cardiff plant.

Chip trade pact 'flouted,' Page 2

State cash injection for Rover Group expected

BY ARTHUR SMITH IN BIRMINGHAM

THE BRITISH Government is expected to inject more money into Rover Group, the financially troubled state-owned car maker. The size and form of any cash injection – whether as increased borrowing or an equity stake – will depend on the current review of operations being undertaken by Mr Graham Day, the chairman, but is conservatively estimated in government circles at more than £100m.

Mr Day's appointment was the personal choice of Mrs Margaret Thatcher, the Prime Minister and government financial support for the strategy he chooses to halt the group's losses is tacitly guaranteed.

Mr Paul Channon, Trade and Industry Minister, is thought to be pushing for a bold strategy. While accepting there might be need for economies within Austin Rover, the volume cars division, he is anxious that capacity should be retained to ensure a long-term future for the domestic car industry.

There is concern within the Government about the consequences of any closures, particularly in the West Midlands where there are many marginal Conservative parliamentary seats.

The Department of Trade and Industry (DTI), conscious that it might have to make a case for more funds for the Rover group, is thought to have been urging for the submission of the corporate plan, in time for November when public expenditure proposals are being formulated.

The DTI is sceptical about whether Honda of Japan, already a close collaborator with Austin Rover, would be prepared to take an equity stake and realises it must hold the responsibility for any cash injection.

The corporate plan seems unlikely to be ready until near the year end, however, as the debate is continuing within the volume cars company about the pace, cost and priorities of the model replacement programme.

Mr Day, in the rationalisation he carried out as chairman of British Shipbuilders, identified and concentrated upon particular market niches and can be expected to seek a similar course with Rover.

Ford may resume UK exports, Page 7

Goodyear takeover defence

By Terry Dodsworth in New York

GOODYEAR, the world's largest tyre manufacturer, has acknowledged that it may be the target of a hostile takeover bid after two weeks of mounting Wall Street speculation that have driven up its share price by almost 25 per cent.

The Ohio-based company has hired two leading Wall Street investment banks to draw restructuring plans aimed at heading off an unwelcome bidder. In a clear reference to its target of rallying share owners to its cause, Goodyear said that the two banks – Goldman Sachs and Drexel Burnham Lambert – would be helping develop a programme "for increasing shareholder values over the near term."

Suggestions that someone might be fixing Goodyear up for a bid began to circulate two weeks ago and intensified last week when the shares continued to feature among the most active on Wall Street. The company estimates that about 20 per cent of its stock has changed hands over the two week period, when the shares have jumped from $35⅜ to $44⅜, valuing the group at about $4.8bn.

Names of several corporate raiders – investors whose special skill is to make gains out of takeover situations – have been mentioned in connection with this activity. These include GAF, the chemicals company which made an abortive offer for Union Carbide earlier this year, Mr Carl Icahn, the New York businessman who is pursuing USX, the US steel company, and Sir James Goldsmith, the Anglo-French financier who has achieved two spectacular takeover coups on Wall Street in the last four years.

Bombay tax raids

Continued from Page 1

Brooke Bond and by the Indian Thapar group.

Mr Goenka was even reported last week to have gone so far as to offer Mr Singh an apology for his "Raid Raj" jibe. Mr Singh was concerned yesterday about the reaction of Bombay's 540 stockbrokers who said they could and would not work while the files of the 21 were held and they seemed to be willing to keep the country's most important stock exchange shut all week.

With a market capitalisation of nearly rupees 175bn, Bombay represents more than 80 per cent of all listed shares in India and its closure would create serious problems.

World Weather

		°C	°F			°C	°F			°C	°F
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Fiat bids for Alfa-Romeo

Continued from Page 1

the US but did not disclose an identity. Rather than Chrysler, it is thought more likely to be a European partner such as Volvo or Saab.

Access to the US market is a strong selling point of the Ford proposals which have so far been kept tightly under wraps. Although Fiat cannot offer to match the scale of Ford's US distribution network, its commitment to enter the US market will probably be seen as neutralising this advantage.

The rival bids will be evaluated by IRI-Finmeccanica over the next week and a recommendation sent for government endorsement in time to meet a November 7 deadline

Banks cut loans to countries with debt problems

By Peter Montagnon in London

INTERNATIONAL banks have been receiving principal repayments from countries with debt difficulties faster than they have been lending new money, according to latest figures from the Bank for International Settlements (BIS) in Basle.

The bank, leading monitor of international bank lending, says debtor countries received $15bn in gross new bank loans under compulsory debt rescue packages during the period, but they still made net repayments of $17.3bn.

The figures cover principal payments only and show that, despite officially-sponsored lending programmes, the commercial banking system made no overall contribution at all to financing these countries during the period under review.

Many debtor countries complain that new bank loans have been insufficient to cover the interest payments they have been making to their creditors, but it has not been realised until now that banks have been receiving net repayments of principal as well.

The BIS figures will reinforce official pressure on commercial banks to provide more finance for countries with debt difficulties at a time when a major new $6bn loan package for Mexico is in the market.

The BIS said its figures contrast with banks' willingness to lend to other parts of the world. International bank lending to other developing countries without debt problems rose by a net $8.4bn during the period.

The statistics are based on returns for all debtor countries which owe international banks more than $1bn and have had to reschedule their debts. They are Argentina, Brazil, Chile, Cuba, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, Philippines, Poland, Romania, South Africa, Sudan, Uruguay, Venezuela and Yugoslavia.

Net repayments of debt by these countries hit a high of $4bn during the first half of this year, said the BIS.

Its statistics are adjusted to take account of exchange rate changes, but bankers noted that the aggregate position may not reflect the situation of individual countries.

Some of the countries on its list have received net infusions of finance. Some such as Romania have made a conscious effort to repay debt; others such as South Africa made debt repayments as credit was withdrawn before rescheduling arrangements were agreed.

Details, Page 30

Canadian bank overhaul urged by commission

By Bernard Simon in Toronto

A CANADIAN judicial inquiry has called for an overhaul in the supervision and regulation of the country's banks in what is likely to be the first step of a wide ranging review of government policy towards financial institutions.

The commission, headed by supreme Court Judge Willard Estey, made its recommendation in a report on the collapse of two small Alberta banks last year, which were the first bank failures in Canada since 1923.

Mr Estey's key proposal involves moving towards the US system of combining bank inspection and deposit insurance by merging the office of the inspector-general of banks, currently attached to the Department of Finance and the Canadian Deposit Insurance Corporation.

He also urges that stricter qualifications be required for senior bank officials and bank auditors, and that statutory limitations should be set on bank loans to single borrowers.

The federal government's plans to present draft legislation of parliament soon which is likely to incorporate some of Mr Estey's proposals. Publication of the report is viewed as a milestone in moves currently underway at both federal and provincial levels to sharpen competition among financial institutions of all kinds.

Mr Estey draws attention to serious lapses by the two Alberta banks' boards of directors, their auditors and, in particular, the inspector-general. He concludes, however, that "public confidence in the banking system should not be shaken by these events."

The collapse of the two banks and a subsequent run on deposits at other smaller banks has had a traumatic effect on the Canadian financial system. A total of five out of 14 domestically-owned institutions have disappeared in the past year.

THE LEX COLUMN

The future is behind you

It was at the mid-morning meeting, in those days held at a tardy 7.15am, that the Time Arbitrageur (for so it will be convenient to speak of him) first tantalised us with his idea.

"You must realise that most of what you learned in your MBA finance courses is totally outmoded," he said, to our general annoyance.

"In the old days, we made our money buying securities in one time-zone and selling in another, and that was profitable because the markets actually had different prices.

"Now that there is only a single world market, the old opportunities no longer exist. But if it were possible to travel to very *distant* time zones – perhaps into the future – it would be possible..."

"To invest all one's capital, leave it to accumulate at interest and hurry on ahead," blurted a Very Young Investment Banker.

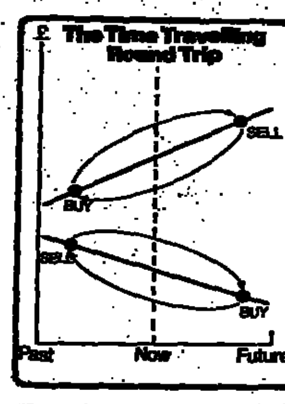
Futures

"That is not even the half of it," the Time Arbitrageur impatiently explained. "For if one could travel in both directions, making as it were a circle in time, the increased capital could be continually reinvested at the bottom of the market. The profits would be infinite."

We all thought that the Arbitrageur was merely spinning a paradox for the sake of it, or was suffering the after-effects of sonic boom on the 3.10am bullet train from Haslemere. The head of our primary gilts dealership told him to take the day off, and come back sober the following morning.

But the Arbitrageur insisted not merely that his idea was serious, but that he could make it work in practice. Before the financial reform then known as the Big Bang, some people had thought it impossible to buy a company with its own assets, he pointed out, bitterly. Once discovered, however, the great principle of leverage had been impossible to resist.

In fact, almost a week was to pass before the Arbitrageur reappeared. His hair was greyer, almost as if he had aged a dozen years or so, and on his face there was a small scar – fully healed – which none of us could remember seeing before.



"Story be damned," was his response to our hubbub of questions. "I won't say a word until I have got some hot coffee into my veins. Thanks, and the sugar."

When he was sufficiently restored to talk, it was indeed an extraordinary tale that the Arbitrageur had to tell:

"You must understand," he said, "that the peculiar sensations of time travel are excessively unpleasant, rather like a prolonged nosedive on the hypersonic shuttle to Australia.

"As I journeyed into the future, thousands of times faster than normal, I could see successive office buildings on London Wall rise and decay in what seemed no more than a few seconds.

Future futures

"After covering five decades in as many minutes, I pulled back on the time-accelerator, and determined to look around the City. To my complete surprise, the old Lloyd's building was still there, empty to all appearance, swatched in rusty pipework and cobwebs. But of the Stock Exchange tower, there seemed nothing left but a twisted heap of steel and concrete.

"A little further along, roughly where the Futures Exchange used to stand, I saw a crowd of young creatures, all with fresh complexions and dressed in double-breasted suits cut from some striped material of unusual softness.

"The sound of laughter drew me into the crowd, and the merry popping of corks made it clear that I was welcome.

"Yet there was something curiously childish about the demeanour of these exquisite beings, who occasionally uttered the archaic word "stockbroker." Even as a shower of rain drove us into the interior of their latter-day Exchange, I found myself doubting whether it could be their own efforts that enabled them to live this gilded existence.

"The truth was more sinister, indeed, than I at first supposed. Penetrating in my curiosity to the back of the room, leaving the carefree scene behind me, I could sense that the floor was sloping steeply downwards. As my eyes grew used to the increasing gloom, I noticed a constant milling of swarthy figures in shirtsleeves.

"Unimpeded by the graceful columns of the Exchange above, they worked ceaselessly in a gigantic windowless dealing room, perhaps half an acre in extent. Despite the panting of its ventilation system, the place was very stuffy and oppressive, with a faint halitosis of freshly shed blood in the air."

The Arbitrageur's return had been as urgent as it was hazardous. From the dual capacity system of our own day, there had too evidently evolved a new division of humankind: the juvenile throng above was maintained only to feed a carnivorous competitive appetite below. For those subterranean dealers, the Arbitrageur feared, he would himself have made easy meat.

Past futures

Having made one journey, however, he was not to be dissuaded from trying once more. We saw him to his strange machine – garaged, as it happened, in the NCP basement car-park. A click, a gust of air, a thud, and he was gone. One cannot but wonder, will he ever return?

It may be that he went forward once more to that blood-soaked future, determined to prevent the massacre of those delicate "brokers" for whom he had formed such quixotic affection. But perhaps he went backwards, and is even now – if I may use that word – trapped by a time loop in the doomed prosperity of that lost age, of champagne and fixed commissions, condemned to circle through a perpetual bull market, time without end.

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12:00 LONDON
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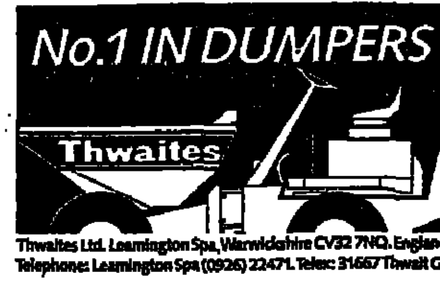
SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday October 27 1986



Index sought for commercial paper

THE Euronote Association, which groups dealers in the fast-growing Eurocommercial paper market, has asked the Bank of England to help it construct a benchmark index for Eurocommercial paper similar to the Federal Reserve's. Composite Index for the US market, writes **Peter Montagnon in London.**

The request acknowledges a growing consensus that the conventional London interbank Eurodeposit rates on which Euromarket transactions have long been based have lost their relevance. As far as the association is concerned, it is also a defensive move designed to ward off attempts by a number of commercial organisations and specialist publications to launch their own indices for the market.

The Bank's initial response was non-committal, but it has promised to consider the request alongside another from the association that it should help gather information on the market, including the volume of outstanding paper which is now thought to be approaching $30bn.

Few market operators would now deny that there is a growing need for some new form of benchmark. Not only do many issues now trade well below Libor; the Libor rate itself is prone to fluctuate depending on the general perception of the health of the banking system. It is therefore hard to make consistent comparisons of the performance of individual issues.

Yet feelings tend to run high when it comes to the practical question of how an index should be constructed. *The truth of the matter is* that Eurocommercial paper is still more an adolescent than a fully mature product. Despite the rapid development of the market, there are still serious doubts about whether trading is yet deep enough and liquid enough to make such an index viable.

What dealers are afraid of is that premature launch of an index could undermine their efforts to place paper with investors. Such is the machismo of borrowers that few, if any, would allow their paper to be sold at rates more than marginally above the index level. That would make life very difficult for those dealers who do most of their business in the lesser-rated paper which still carries high yields and is often parked with commercial banks.

Of course, organisations which are now trying to promote the idea of an index run the risk that its launch would be futile if the market simply ignored it. There is no point in having an index which is not universally accepted.

Bank of England involvement in an index would have the advantages of making it both more objective and authoritative than one constructed by an independent sponsor. Euronote dealers argue that the Bank would have the clout to ensure that the make-up of the index was fair and not weighted unduly in favour of any particular borrower or type of borrower.

All this still presupposes, however, that the Bank could also use its authority to winkle representative and objective prices out of the market. In the long history of the Eurobond market it has proved extremely difficult to obtain prices of a quality from which a reliable index could be constructed. Interestingly enough, the Bank of England *did not jump at the chance of making* such an effort on behalf of the Euronote market. On the question of the collection of information, it told the association it would first have to consider how information would be collected and in what form.

Elsewhere, Banque Nationale de *Paris has still not confirmed final* details of its planned $300m credit for the Soviet Foreign Trade Bank, but it has meanwhile already also started work on a $300m deal for Banque Nationale d'Algérie. Negotiations are at a preliminary and sensitive stage, however. Algerian borrowers are known to be very fussy about what terms they will accept, and the market has come to resist fine pricing because of the fall in the oil price.

Salomon Brothers has been appointed sole dealer on a $100m certificate-of-deposit programme for the Bank of China.

Perils of haphazard Eurobond syndication

PRESSURE is mounting to improve syndication practices in the Eurobond market, and last week provided examples both of the perils of the current haphazard approach to inviting co-managers into a deal and of attempts to remedy it, writes **Clare Pearson in London.**

When Morgan Guaranty commenced syndication of a floating-rate note issue for NZI, the big New Zealand insurance company, it resuscitated the long-abandoned practice of giving co-managers a few days before considering whether to participate in the fixed price deal. Co-managers have until tomorrow to decide whether to take part in the issue, which was launched last Thursday.

It is unlikely, however, that such an approach will become common again. Morgan Guaranty took the decision to syndicate in this way because NZI's name is unfamiliar to the Eurobond market.

It would be difficult to prolong the syndication period in the fixed-rate market because interest-rate volatility makes any time-lapse between pricing and completion of syndication highly risky for the lead-manager.

Yet the dangers to lead managers of calling upon co-managers to make instant decisions were amply illustrated when New Zealand itself issued a Euroyen bond in the fixed-rate market last week. The deal was withdrawn after Daiwa Europe, the lead-manager, was unable to complete its syndication.

The launch of the aggressively priced Y40bn bond for New Zealand on Tuesday surprised the market, given that the Euroyen market was trading poorly on diminishing hopes of a Japanese interest-rate cut.

Many deals are tightly priced, and very few are removed from the market after they have been trading in the grey market. Syndication broke down as some participants protested that they had not agreed to the bonds' terms, which, they claimed, was a condition of the issue, and some confusion arose over which houses had accepted.

The market practices committee of the International Primary Market Association, the self-regulatory body of the primary Eurobond market, is currently considering recommendations to improve disclosure requirements, particularly with regard to size of underwriting commitments, during syndication.

Credit Suisse First Boston said it was deliberately adopting a cautious approach to syndicating a new bond for BFCE, launched on Friday with a sub-Libid coupon.

Pricing negotiations were conducted between the borrower, the French Treasury, CSFB and the co-lead managers. The issue was eventually priced more cheaply for the investor than recent issues for Denmark and the United Kingdom. The cost to BFCE, taking in the full 15 basis point fees, was one basis point below Libid.

The Eurodollar fixed-rate market traded thinly last week, ahead of the forthcoming US Treasury bond auctions. A rebound in the value of the dollar at the end of the week failed to inspire investors to return to the market, as it was accompanied by falls in US Treasury bond prices.

The D-Mark market also traded thinly. Prices improved slightly towards the end of the week as some short covering occurred.

The Swiss market traded firmly although some concern was developing that interest rates may have reached their lows while the market has become overloaded with new paper.

Electrolux launches innovation

MEDIUM-TERM notes are still in the early stages of development in Europe, *writes Alexander Nicoll in London.*

Yet the market has already seen a breakaway: so-called multi-tranche tap notes, issued for the first time last week by Electrolux.

Launched by Merrill Lynch Capital Markets, the Electrolux issue is a cross between a regular Eurobond and a medium-term note (MTN). The latter, now a large market in the US, are securities offered continuously, like commercial paper, but for any medium-term maturity, depending on borrowers' and investors' exact needs.

In the Euromarkets, PepsiCo has a programme which now has amounts outstanding in tens of millions of dollars; First Interstate has paper outstanding but is not currently issuing due to its takeover bid for BankAmerica: Nordic Investment Bank is to begin issuing shortly; and American Life Insurance has announced a programme. Paper is likely to be in the one to five year range.

Unlike normal MTNs, the Electrolux issue was given a minimum size of $50m for a tranche of three-year paper. But like MTN and unlike Eurobonds, it is distributed through dealers rather than through a management syndicate.

It can be added to through a tap system up to a maximum $200m; $57m had been issued by Friday night after two days. Unlike Eurobonds, the paper has semi-annual, not annual coupons. Like Eurobonds and like other MTNs, it is listed and is in small denominations.

Dealers are maintaining a ⅛ point bid/offered spread and say they will keep a steady margin of no more than 82 basis points above US Treasuries. The intention is thus that the paper should be very liquid, move in tandem with Treasuries and avoid rises in spreads which can occur when Eurobond issues move from the primary to the secondary market.

Texaco to split top job

By Terry Dodsworth in New York

TEXACO, the third-largest US oil company, is to split the top job of chairman and chief executive when Mr John McKinley, the present incumbent, retires at the end of this year.

In an unusual power-sharing arrangement the two main contenders for Mr McKinley's position have each been given one of his posts. Mr James Kinnear, the group's 58-year-old vice chairman, will become chief executive while Mr Alfred Decrane, the 55-year-old president, will take over as chairman.

There had been suggestions that Mr McKinley, a tough and sometimes autocratic engineer, would stay on to see an end to the complex legal battle with Pennzoil, the much smaller oil company which won an initial $11bn court award against Texaco for its conduct in the takeover of Getty Oil two and a half years ago.

The two companies are currently trying to negotiate a settlement of the legal battle, in which Texaco is said to be willing to make an out-of-court payment of up to $1bn. But it is not clear whether a deal will be reached before the retirement of Mr McKinley, who is 68.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,732.4	3.6	445.0	3,016.5
Prev	2,331.9	392.3	1,764.2	2,403.0
Other	1,492.9	8.0	2.6	79.2
Prev	1,308.2	1.2	10.8	303.2
Secondary Market				
US$	18,667.5	1,246.1	9,011.4	4,272.7
Prev	22,493.6	1,173.2	10,498.7	4,678.4
Other	12,026.4	143.2	3,676.2	5,834.1
Prev	12,019.3	64.1	4,795.3	6,030.9
	Cedel	Euroclear	Total	
US$	12,118.1	28,857.1	38,945.2	
Prev	15,165.6	36,652.1	51,817.7	
Other	11,361.2	11,648.8	23,030.0	
Prev	11,299.3	12,222.3	23,521.6	

Week to October 23 1986 Source: AIBD

De Benedetti French chief quits over bid

BY PAUL BETTS IN PARIS

THE takeover battle for Presses de la Cité, France's second-largest publishing group, has led to a major management shake-up at Cerus, the French holding company of Mr Carlo De Benedetti, with the resignation of its chairman, Mr Claude Pierre-Brossolette.

Cerus and its partner Pechelbronn, a holding of the French Groupe Worms, announced unexpectedly at the end of last week that they were dropping their bid for Presses de la Cité, clearing the way for Générale Occidentale's rival effort to gain control of the French publisher.

However, the decison to pull out of the bidding led to an open clash between Mr De Benedetti and Mr Pierre-Brossolette, a former chairman of Crédit Lyonnais, the second-largest French commercial bank.

Mr Pierre-Brossolette, a senior partner of the Groupe Worms, appears to have decided to drop the Cerus bid against the wishes of Mr De Benedetti and reached an agreement with Sir James Goldsmith, who controls Générale Occidentale. In so doing, Cerus and Pechelbronn are expected to make a sizable capital gain from the 22.5 per cent stake they have jointly accumulated in Presses de la Cité.

However, Mr De Benedetti did not see the Presses de la Cité bid as a financial operation. Indeed, the Italian entrepreneur has been seeking to acquire control of companies in France with promising turn round potential to manage their development.

Mr De Benedetti has now decided to take over himself the chairmanship of Cerus.

Cerus and Pechelbronn were offering about FFr 2,950 a share for Presses de la Cité in a share swap with cash while Générale Occidentale has offered about FFr 3,170 a share in a three-for-one share swap.

Monsanto well ahead

BY DAVID BLACKWELL IN NEW YORK

MONSANTO, the fourth-biggest US chemicals producer, which has been undergoing a major restructuring programme, has boosted third-quarter earnings sharply after taking in a $63m gain.

The gain, resulting from the rationalisation and sale of certain businesses, took net profits for the quarter to $144m, or $1.85 a share, from $31m, or 42 cents, previously.

Sales were slightly down in the quarter, at $1.69bn against $1.74bn. However, sales for the first nine months rose to $5.31bn from $4.99bn.

Nine-month earnings were also well ahead at $410m, or $5.27, compared with the previous $242m, or $3.14.

Court blocks Campeau deal

A US FEDERAL judge has granted Allied Stores a motion for a temporary restraining order barring Campeau, the Canadian property group, from completing the purchase of 25.8m Allied Stores shares it has bought.

The restraining order will bar Campeau from completing the purchase until a hearing on Friday. Campeau had scooped up the Allied shares on the open market to gain clear control.

In a move planned for several weeks, Campeau abruptly terminated an earlier tender offer for Allied shares on Friday morning and, through the Los Angeles-based securities firm Jefferies and Company, bought large parcels of shares.

A Jefferies trader said that the 25.8m shares, valued at $1.73bn, were bought from about 60 arbitrageurs.

These Bonds having been sold outside the Netherlands Antilles, New Zealand and the United States of America, this announcement appears as a matter of record only.

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

John Wyles describes the industrial logic of keeping Alfa Romeo Italian

Fiat bids high in the luxury car stakes

IF IT succeeds, the Fiat group's attempt to establish itself as a large-scale producer of medium and high performance luxury cars through the acquisition and development of Alfa Romeo will be seen as its cleverest strategic move this decade.

If it fails, then Italy's leading private company could be seriously weakened at a time when its bread and butter markets in Europe for small and medium-sized family cars are under growing pressure from Japanese competition.

Of course, this judgment could still be academic. There is still the outside chance that IRI-Finmeccanica, which is evaluating the rival Fiat and Ford bids for Alfa with the help of First Boston and Arthur D. Little, will decide for Ford. There is also the chance that the Government would endorse this decision.

But it needs touching faith in miracles to believe that both will happen, given the tangible national pride in Fiat's achievements and the breadth and power of Avvocato Gianni Agnelli's industrial and political influence.

Nevertheless, it will be equally surprising if, after passing the slide rule over Fiat's market projections for its proposed new Alfa-Lancia company, the analysts do not find them a touch optimistic.

In essence, the new company will need to be selling an extra 220,000 vehicles in 1990-91 in order to meet Fiat's targets. Some 60,000 are earmarked for North America. If the balance is to be sold in Europe into a projected market of 2m units of medium and high performance cars, then the current Alfa-Lancia share of 23 per cent will need to be pushed up to around 28 per cent. This means that the new company will have to take nearly half of the projected growth in the market from this year's current level of 1.7m vehicles.

It must do so, moreover, without one marque absorbing any of the other marque's sales and against competition from Volvo, VW-Audi, Porsche, BMW, Daimler-Benz and Saab.

Fiat's product development plans for Alfa would introduce new versions of the types 33 and 75, the 164 (a clone of the Fiat Chroma, which is already planned for next spring), a new sports coupé, a new line of passenger vans and a four-wheel-drive "jeep" type vehicle which Alfa has already planned with Nissan participation.

Alfa's production of its basic Boxer engine would continue while its V6, currently destined for the 164, could also find its way into Alfa and Lancia cars.

At Lancia, meanwhile, the Autobianchi Y10 would be retained, as would the fast selling, top of the market Thema. New versions of the Delta and the Prisma would be introduced.

On the financial level, Fiat will want IRI-Finmeccanica to deliver Alfa cleansed of all its debts of around L2,500bn ($1.78bn). Should the new company be unable to finance the L5,000bn investment programme planned for Alfa, then Fiat, whose operating profits will comfortably exceed L2bn this year as they did last, is confident of finding the resources.

The remaining L3,000bn in the projected total investment of L8,000bn would include up to L1,200bn for all of Alfa's assets and the rest will cover operating losses which Alfa believes will be cut to L200bn this year.

A comparison with the Ford bid is difficult because so few details are known. The levels of investment in updating plant and productivity are broadly similar, although Fiat promises more on product development. Ford also wants the public purse to share Alfa's losses until its initial stake of 19.5 per cent is raised to 51 per cent after three years. It may also be seeking some IRI finance for product development.

Once it knew of Ford's interest in Alfa and of IRI's readiness to sell, Fiat was bound to try to defend its 54 per cent hold on the Italian market. But the broader motivation is similar to Ford's. Japanese competition is squeezing the lower end of the European market and the 1954 agreement limiting Japanese sales in Italy to less than 3,000 a year will not prevail forever.

Fiat, therefore, want a substantially bigger sale of higher value added vehicles. It would be launching its effort at a time of generally rising incomes and economic growth in Europe. Sustaining it in the teeth of a recession without doing damage to the rest of the group would be a serious challenge.

Spanish move by Belgium's Soc. Generale

By Tim Dickson in Brussels

SOCIETE GENERALE de Belgique, Belgium's largest industrial and financial holding company, has announced that it is taking a substantial minority interest in Mercapital, the Spanish investment bank.

The value of the deal—details of which have not been disclosed—is less significant than the evidence it provides of Societe Generale's strategy of building up its presence in international financial services. This was clearly signalled earlier in the year when the group took a 50 per cent participation in Dillon Read, the London-based company.

Societe Generale explained that Spain is considered an attractive market because of the country's recent membership of the European Community and the new climate of deregulation. "We believe that there will be more international financial activity than in the past."

Mercapital, which offers corporate advisory, mergers and acquisitions, and trading services, will continue to be owned by local family interests. Following the latest deal its capital base will exceed Pta 1.9bn ($14m), making it the largest non-banking finance group in Spain.

AMC third-quarter losses soar

BY DAVID BLACKWELL IN NEW YORK

AMERICAN MOTORS, the troubled fourth largest US car maker which is 46 per cent owned by Renault of France, widened its net loss for the third quarter to $40.4m from $19.1m.

Mr Joseph Cappy, president and chief executive, said the increased deficit could be attributed for the most part to costly incentive programmes and a reduction in volume, although the effects of these were offset by improved operating margins.

"From a marketing standpoint, the incentives helped boost retail sales and substantially reduced dealer stocks of 1986 models," he said. "From a financial standpoint, we should benefit from these reduced dealer stocks in future quarters."

At the nine-month stage AMC lost $111.3m against a loss of $118.6m last time. Sales fell sharply from $1bn to $805m in the quarter. For the nine month sales were down at $2.5bn, against $2.9bn.

Renault property deal to raise FFr 1.8bn

BY PAUL BETTS IN PARIS

RENAULT IS planning to raise FFr 1.8bn ($270m) from the sale and lease back of its headquarters at Boulogne Billancourt in the Paris suburbs and other property in the area.

The move is designed to help finance the construction of a new "technological centre" at Boulogne Billancourt which will eventually also house the company's headquarters. At the same time, the property sales will also raise nearly FFr 1bn in fresh cash for the troubled car group, the debts of which total FFr 60bn.

The new technology centre will cost about FFr 900m to complete.

The decision is part of Renault's continuing efforts to cut costs and restructure its operations in order to return to profit by the end of next year. The state car group is expected to lose about FFr 5bn this year, compared to a deficit of FFr 10.9bn in 1985.

Profits collapse at Fuji Electric

BY YOKO SHIBATA IN TOKYO

FUJI ELECTRIC, the leading Japanese electrical machinery maker in which Fujitsu and Siemens each have minority stakes, has reported a 46 per cent drop in pre-tax profits for the six months ended in September to Y2.02bn ($125m). Net profits for the period by a similar proportion to Y1.33bn.

Sales during the half-year were up by 0.5 per cent to Y181.7bn as a result of strong demand for heavy electrical products, which more than offset the effects of sluggish semiconductor volume sales.

For the full year, the company is predicting a 21 per cent drop in pre-tax profits to Y4.5bn.

PKbanken offer for Gotabanken falls through

By Kevin Done, Nordic Correspondent in Stockholm

PKBANKEN, one of the "big three" commercial banks in Sweden was thwarted at the weekend in its bid to take over Gotabanken, the country's fourth largest bank.

The takeover, worth more than SKr 4bn ($575m), which would have made PKbanken Sweden's largest bank ahead of the traditional leaders, Skandinaviska Enskilda Banken and Svenska Handelsbanken, was blocked by Proventus, the investment company, which owns some 45 per cent of Gotabanken.

PBbanken has been talking in secret with Proventus, which is controlled by Mr Robert Weil, the young Swedish financier, for several months. On Friday it made an offer worth around SKr 2bn to take over the Proventus stake, but over the weekend this was rejected by Mr Weil.

As part of the deal, Proventus had been offered control over PKfinans, the PKbanken finance company, Merkantil Leasing, owned by Gotabanken, plus Jacobsson & Ponsbach, the Stockholm stockbroker, but the transaction broke down when Proventus insisted on a larger cash payment.

CBS to sell publishing divisions

CBS, the US broadcasting and entertainment group, is to sell its educational and professional publishing interests for $500m and has reached preliminary agreement on the disposal of its music publishing business.

The CBS educational and professional publishing division is being acquired by Harcourt Brace Jovanovich.

No figure has been put on the value of the music publishing transaction.

The division is to be sold to Mr Stephan Swid, chairman of General Felt, who made a bid for the Sotheby's auction house three years ago, in collaboration with Mr Charles Koppelman and Mr Martin Bandier.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Suzuki Motor Co. ¶‡	50	1991	5	3¼	100	Nikko Secs. (Europe)	3.750
Yasuda Trust & B'ing §‡	100	2001	15	2⅜	100	Yasuda Trust Europe	2.375
Sekisui House ¶	300	1991	5	(3⅛)	100	Daiwa Europe	-
Dayton-Hudson ‡	100	1993	7	8¼	101	SBCI	8.059
ECSC ‡	185	1996	10	8¼	101½	Chase Manhattan	8.082
Bergen Bank ‡	60	1992	6	8	100	Société Générale	8.000
Société Générale (a) ¶‡	500	Perp.	-	7⅛bp	100.05	Société	-
Bell Resources §	200	1996	10	5¼	100	SBCI	5.250
C. Itoh Fin. (d) ‡	50	1988	2	3	100	Nikko Secs. (Europe)	3.000
NZI Fin. Services (g) ¶‡	125	1994	8	7⅛	100	Morgan Guaranty	-
Bertelsmann Int. Fin. ‡	200	1993	7	8	100	Commerzbank	8.000
Yashasa Dept. Store ¶	60	1991	5	(3¾)	100	New Japan Secs.	-
New Zealand ‡	250	1991	5	7¼	101⅛	Banque Paribas	7.226
Denmark (0) ‡	100	1989	3	10	100⅜	Merrill Lynch	9.959
Honda ‡	75	1991	5	7½	101¾	Nikko Secs. (Europe)	7.072
Inasco Ltd. ‡	150	1991	5	8⅛	100	Morgan Stanley	8.125
BFCE ‡‡	350	1996	10	(i)	100.1	CSFB	-
Kawasaki Printing ¶‡	50	1991	5	3¾	100	Yamaichi Int. (Eur)	3.750
CANADIAN DOLLARS							
Xerox Canada ‡	80	1996	10	10	100¼	UBS (Secs)	9.959
Fed. Business Dev. Bk (b) ‡	75	1990	4	9⅛	100⅝	McLeod Young Weir	9.134
World Bank (f) ‡	150	1991	5	9.25	99.80	First Boston	9.401
Honda ‡	70	1991	5	9¼	101½	World Gundy	9.361
AUSTRALIAN DOLLARS							
Med. Canada ‡	50	1990	3	14¼	101½	Salomon Brothers	13.881
NEW ZEALAND DOLLARS							
Honda ‡	70	1990	3½	16	101	Morgan Stanley	15.486
D-MARKS							
Bando Chemical Ind. ¶	80	1991	5	(2¼)	100	Deutsche Bank	-
World Bank (e) ‡	300	1996	10	6	98¾	Deutsche Bank	6.451
SWISS FRANCS							
Int. Hydro Corp. §‡	30 max.	1994	-	5¾	100	Bqe Gutzwiller, K. B.	5.750
Sekisui Chemical** §‡	120	1992	-	1½	100	UBS	1.500
Prima Meat Packers** ¶‡	50	1991	-	2¼	100	UBS	2.250
Daiwa House Ind.** ¶‡	100	1991	-	2¼	100	UBS	2.250
Sekisui Shoken** ¶‡	30	1991	-	2½	100	SBS	2.500
Co-op ‡	100	1996	-	5⅛	100	Swiss Volksbank	5.125
Kloeckner and Co. ‡	75	1996	-	5	100	UBS	5.000
Chugoku Elec.Pwr ‡	125	1994	-	4¾	99½	Crédit Suisse	4.827
Chrysler Fin. Corp. ‡	100	1996	-	5⅛	100⅝	Mgn Guaranty (Switz)	5.168
C. Com. Il'jealles Quebec ‡	100	1997	-	4¾	100	SBC	4.750
Bell Resources §	250	1996	-	2¼	100	SBC	2.250
Helsinki Elec. Pwr** ‡	120	1991	-	4⅝	100¾	Crédit Suisse	4.818
Sumitomo Int.** ¶	55	1991	-	(2¼)	100	Crédit Suisse	-
Mitsubishi Mtls. & Com.** ‡	40	1991	-	4⅞	100	Crédit Suisse	4.875
Toyo Sekan** §	50	1992	-	(1½)	100	Crédit Suisse	-
FRENCH FRANCS							
Henny Martin (a) ‡	300	1993	7	V/a	100	Société Générale	-
STERLING							
BET ‡	85	2001	15	6⅜	100	CSFB	6.375
LUXEMBOURG FRANCS							
EIB** ‡	300	1992	6	7¼	100¼	BGL	7.197
Euroc Capital** ‡	300	1989	3	7½	100	BIL	7.500
GUILDERS							
Suzuki Motor Co. ¶‡	100	1991	5	1⅞	100	Amro	1.875
AUSTRIAN SCHILLINGS							
Creditanstalt-Bkverein ¶	300	1994	8	6⅛	110	SBCI	4.720
Austria (h) ¶‡	2bn	1993	7	¼	100	GZB	-

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ⓓ With bond warrants. ‖ Currency-linked. (a) ⅛% over 3m Libor first 3 months, then lower of 3m Libor + ⅛% or 3m Pibor + ¼; 5yr option to switch to 8⅛ 7yr bond at 100. (b) Resettable, retractable. (c) 7⅛bp over 6m Libor. (d) Redemption linked to gold price. (e) Fungible with DM 500m issued in July. (f) Launched on US domestic market. (g) ⅛% over 6m Libor. (h) ⅛ over 3m Vibor. (i) 2bp under 6m Libid, additional $250m tap for 5yrs. (k) Related. Note: Yields are calculated on AIBD basis.

DSL Bank
Deutsche Siedlungs- und Landesrentenbank Bonn/Berlin

U.S.$100,000,000

8⅛% per cent. Bonds Due 1996

Morgan Guaranty Ltd | J. Henry Schroder Wagg & Co. Limited
Bank of Tokyo International Limited | Banque Bruxelles Lambert S.A.
Banque Nationale de Paris | Bayerische Vereinsbank International S.A.
BHF-Bank International | Citicorp Investment Bank Limited
Compagnie Luxembourgeoise de la Dresdner Bank AG | County NatWest Capital Markets
Credit Suisse First Boston Limited | Daiwa Europe Limited
Deutsche Bank Capital Markets Limited | DG Bank International
IBJ International Limited | Kidder, Peabody International Limited
Manufacturers Hanover Limited | Merrill Lynch Capital Markets
Nomura International Limited | Salomon Brothers International Limited
Swiss Bank Corporation International | Union Bank of Switzerland (Securities) Limited
WestLB International S.A.

29th July, 1986 — All of these securities have been sold. This announcement appears as a matter of record only.

Ireland

ECU 100,000,000

7⅛% Bonds Due 1996

Morgan Guaranty Ltd

Algemene Bank Nederland N.V. | Commerzbank Aktiengesellschaft
Crédit Commercial de France | Daiwa Europe Limited | Orion Royal Bank Limited
Banca Commerciale Italiana | Bank of Tokyo International Limited
Banque Générale du Luxembourg S.A. | Banque Internationale à Luxembourg S.A.
CIBC Limited | Credit Suisse First Boston Limited
Deutsche Bank Capital Markets Limited | Dresdner Bank Aktiengesellschaft
EBC Amro Bank Limited | Kansallis Banking Group
Merrill Lynch Capital Markets | Mitsubishi Finance International Limited
Morgan Stanley International | The Nikko Securities Co., (Europe) Ltd.
Nippon Credit International (HK) Ltd. | Nippon European Bank S.A. LTCB Group
Rabobank Nederland | Sumitomo Trust International Limited
Swiss Bank Corporation International Limited | Takugin International Bank (Europe) S.A.
Tokai International Limited | S.G. Warburg & Co. Ltd.

Allied Irish Banks PLC | ANZ Merchant Bank Limited | Banca Nazionale dell'Agricoltura
Banca Nazionale del Lavoro | Banco di Roma | Bank für Gemeinwirtschaft Aktiengesellschaft
Bank Leu International Ltd | Bank Mees & Hope NV | Banque Indosuez | Banque Louis-Dreyfus
Banque de l'Union Européenne | Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft
Bayerische Landesbank Girozentrale | Bayerische Vereinsbank Aktiengesellschaft | Berliner Bank Aktiengesellschaft
Berliner Handels- und Frankfurter Bank | Caisse d'Epargne de l'État, Banque de l'État
Compagnie Monégasque de Banque | Copenhagen Handelsbank A/S | Crédit Industriel d'Alsace et de Lorraine
Crédit du Nord | Creditanstalt-Bankverein | Credito Italiano
Den Danske Bank | DG Bank Deutsche Genossenschaftsbank | Dominion Securities Pitfield Limited
Enskilda Securities | Girozentrale und Bank der österreichischen Sparkassen | Ippa Bank S.A.
Istituto Bancario San Paolo di Torino | F. van Lanschot Bankiers N.V. | Mitsubishi Trust & Banking Corporation (Europe) S.A.
Mitsui Trust Bank (Europe) S.A. | Norddeutsche Landesbank Girozentrale | Österreichische Länderbank Aktiengesellschaft
PK Christiania Bank (UK) Ltd | Postipankki | Privatbanken A/S | Provinsbanken A/S | Saitama Bank (Europe) S.A.
Société Européenne de Banque S.A. | Société Générale Alsacienne de Banque
Sparekassen SDS | Standard Chartered Merchant Bank | Swiss Volksbank | Union Bank of Norway
Vereins- und Westbank Aktiengesellschaft | Westdeutsche Landesbank Girozentrale | Wood Gundy Inc.
Yamaichi International (Europe) Limited

20th May, 1986 — All of these securities have been sold. This announcement appears as a matter of record only.

US MONEY AND CREDIT

Japanese hold key to Treasury re-funding

NO SINGLE issue managed to capture the imagination of investors, but four questions pushed and pulled the US credit markets in a number of different directions last week—the outlook on inflation, the November Treasury re-funding, the strength of the economy and the prospects of Japanese buying. By a modest margin, bullish sentiments won out overall, leaving both short- and long-term interest rates slightly down, despite setbacks at the beginning and end of the week.

The initial inclination of dealers on Monday was to push rates up, testing the 8 per cent trading range at the longer end of the maturity spectrum. Fears that the economic statistics for the week might show a significant rebound, thus prompting renewed anxieties about inflation and higher rates, lay partly behind the rise. At the same time, the upward move reflected the recurrent and predictable reaction of the market to the approach of the quarterly refundings, due in early November.

It is fairly typical of the credit markets to slide into refundings, deliberately pushing up rates a little to make sure that the Treasury demands can be met. An announcement of the size of the Government's requirements for the final quarter is due this week, but the market is already expecting that it will be in the order of the last re-funding and possibly slightly more — an outcome that would put the total to be raised at around $30bn.

With such heavy demands in the offing, the intention of Japanese investors also becomes an issue of great significance. Throughout this year Japanese buying — and to a lesser extent other foreign participation —has helped the Treasury negotiate its re-fundings without too many problems. But at each new call on the credit markets there has been speculation that the Japanese might hold off, either because of anxieties over a plunge in bond prices if US inflation takes off again, or because of worries about further falls in the dollar.

In fact, the Japanese this week gave a strong hint that they were not yet ready to desert the US credit markets. On Wednesday and Thursday they emerged as heavy buyers of Treasury securities, snapping up between $400m and $500m on Thursday alone.

Two reasons are given for the strength of this Japanese interest — the differential on yields, which are around 2.25 per cent higher in the US than in Japan at the long end, and the feeling that the slide in the dollar has been stopped. Indeed, the dollar rallied strongly at the end of the week, moving back over the Y160 mark, giving further support to Japanese interest in the credit markets.

Japanese buying found broad support in the latest round of economic figures. After some hesitation, the market seems to have come round to the view *that these statistics broadly* showed an economy which is not yet re-igniting in a way that gives rise to significant inflationary fears. Equally, the figures did not seem to indicate an economy which was dropping through the floor and which would require further stimulation from the Federal Reserve Board.

Most analysts seem to have come round to the view that the *news from the economy is* giving the Fed no cause to shift policy either way at the moment,

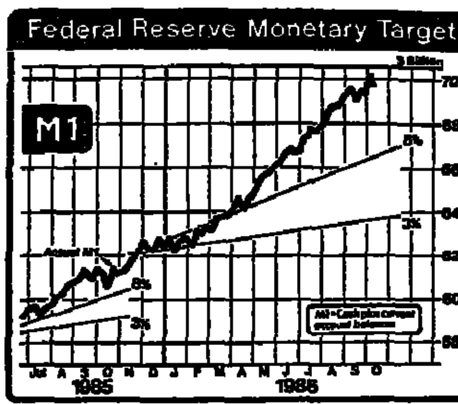
US MONEY MARKET RATES (%)

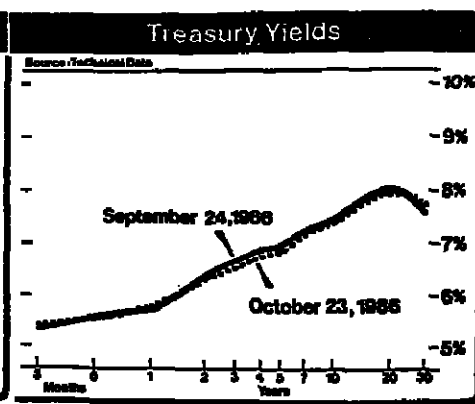
	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.94	5.88	5.84	9.91	5.71
Three-month Treasury bills	5.28	5.29	5.23	7.40	5.01
Six-month Treasury bills	5.33	5.37	5.36	7.41	5.06
Three-month prime CDs	5.78	5.82	5.75	8.05	5.46
30-day Commercial Paper	5.75	5.70	5.78	8.06	5.55
90-day Commercial Paper	5.70	5.68	5.70	7.95	5.45

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99⅞	+ ⅛	7.26	7.32	7.28
20-year Treasury	111⅞	+ ⅛	8.05	8.17	8.07
30-year Treasury	94	+ ⅜	7.77	7.84	7.63
New 10-year "A" Financial	N/A	+ ⅞	8.50	8.63	8.50
New "AA" Long utility	N/A	—	9.38	9.38	9.38
New "AA" Long Industrial	N/A	+ 1⅛	9.13	9.25	9.13

Money Supply: In the week ended October 13 M1 fell by $5.1bn to $686.5bn.
Source: Salomon Bros (estimates).





The wild card in the weekly hand of statistics was an unexpectedly sharp 8.8 per cent increase in orders for non-defence capital goods in September. This was a hefty jump by any standards, and might *have been expected to give the* markets cause for concern. But investors chose not to react significantly, partly because these figures are often revised quite substantially, and partly because there is a feeling that the stimulation in demand may have come from the ending of the uncertainty over the future tax regime now that the new tax Bill has passed into law.

More important, the figures *on the growth in gross national* product (GNP) came in more or less in line with market expectations at 2.4 per cent. This marked an acceleration from the 0.6 per cent recorded for the second quarter, but was *hardly a sizzling pace*, and was largely attributable to already well-noted gains in consumer spending.

The inclination of the market was to give more weight to the GNP statistics than to the durable goods orders. As a result, bullish sentiment gained the upper hand, buoyed up by further signs that the economy was doing little more than tick over — a sharp decline in new car sales, continued consumer price stability and a $5.1bn decline in M1. Mr David Jones of Aubrey Lanston noted that *spending on cars, one of* the big factors in maintaining the strength of consumer demand in recent months, was likely to be down over the final quarter.

Some analysts, far from worrying about overheating in the economy, believe that growth is unlikely to be sustained at the third quarter rate in the current three months. *In this case, they are arguing* for further gains in the bond market and a consequent decline in rates — but not until the Treasury re-funding is out of the way, and not before some convincing figures come out of Washington on the direction of growth.

Mr Henry Kaufman, the Salomon Brothers chief economist, believes that the key clue to watch for will be the *employment figures on November 7.*

Terry Dodsworth

FT / AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11¼ 94	100	103¾	+0¼	11.05
AIDC 11 89	75	106⅝	+0¼	7.61
Alcan Australia 8½ 88	25	100	+0¼	8.46
Amer Saving 12 89	125	105¼	+0¼	9.20
[illegible]				

YEN CONVERTIBLES (partial)	Issued	Price	Chg. on week	Prem
Canon 7 97	50	301½	+19¾	−1.60
Daiwa Secs 5½ 98	60	491½	−108	−19.72
Elektrowatt 6 98	51	159¾	+1¼	−5.53
Fuji Bank 2⅛ 00	100	151	−6¾	−0.30
Fujitsu 3 96	130	143¾	+10½	5.19
Irtec Inc 3 99	50	200	+12½	1.09
Kyowa Hakko 6¾ 97	40	422⅞	−51¾	−10.33
LASMO 6¾ 99	44	85	−0½	114.11
Murata Mfg. 3½ 00	100	195	+13¾	21.42
Nippon Oil 3⅛ 98	50	0		
[illegible] Pharm 3⅛ 98	60	202	−25¾	−10.53
Secom 3⅛ 99	80	258⅞	+3¾	9.69
Sumitomo Corp 2⅞ 99	70	205	−50	−11.63
Sumitomo Tst Bk 2½ 01	150	124¾	−5¾	1.75
Texaco Capital 11⅞ 94	1bn	104¼	0	46.14
Texaco Capital 11¾ 94	600	104	+0½	45.38
Tsumura J'tendo 6⅞ 96	30	143¾	−6¾	−5.42
USAIR Fin 7 98	50	113¾	+1¼	7.10
[illegible]				

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.
Closing prices on October 24

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UK GILTS

Maternal soothing from Threadneedle Street

IF FRIDAY's farewell parties to the old gilt-edged market were not enough to give traders a headache, the traumas of the first day of business in the new market probably will.

It may come as a shock to the system (and systems). Traders had a relatively quite time last week with market makers reluctant to lumber themselves with large positions either way before Big Bang today, and customers understandably reluctant to pay commission in the last week of their existence. Prices ended little changed overall.

Sterling provided some much needed breathing space by staging an unexpected, if undramatic, recovery on the back of the firmer dollar. The real Mansion House speech, given by Mr Robin Leigh-Pemberton, the Governor of the Bank of England, at Loughborough University last week, passed with no more than a murmur from gilt traders, although the ghost of the broad money aggregate, sterling M3, will no doubt come back to haunt the market in months to come.

Meanwhile, all thoughts turn on Big Bang. The Bank of England provided the 27 new market makers with a welcome focus on Friday by announcing a tap stock. It is offering by tender £1bn of 10 per cent Treasury Convertible Stock 1991 at a minimum price of £96.25. The stock is partly paid and an unusual dual option is attached, to convert either to 9½ per cent Conversion Loan 2001 or to 9 per cent Conversion Loan 2011.

At the long end of the shorts and convertible into longs, the stock appears to be ideally suited to the fragility of the current market, whose fortunes remain tied so tightly to sterling's performance.

Another sweetener is that the stock is tax free for foreign investors. Although last week saw little domestic retail interest in gilts, there was some foreign buying as investors switched from the relatively unpopular US and West German bond markets. This stock could attract them in greater numbers.

There was a difference in opinion on Friday whether the stock was cheap or expensive but there appeared to be no doubt that the Government will have little trouble placing the issue. *This is the first tap of the* post-Big Bang era, and investors want their slice of history.

Most view the gimmickry of the new stock as maternal soothing by the Bank of England as her proteges square up to their first week in senior school.

More cynical types, who judge the stock to be extremely cheap, just wonder whether all the glitter hides a real need to press ahead with government funding.

With only a few weeks left until the flotation of British Gas and the start of the tax paying season with their drains on liquidity, it may well be that the authorities wanted to get another chunk of funding in the gilt market out of the way before the new tap stock will be bought to the detriment of the rest of the shorts sector, given that market sentiment remains so nervous. No-one really believes sterling is out of the woods.

Mr George Magnus, chief economist with Chase Manhattan Securities, gloomily lists the balance of payments, inflation, money supply, oil price problems and public expenditure as negative factors for the pound. He reckons that £5.5bn of next year's £6.3bn contingency reserve has already been committed, even before the rash of promises made at the Conservative Party conference. Eyes right for the Chancellor's autumn statement.

And despite the message from Loughborough, the gilt market still needs some measure of monetary control to latch on to and, despite its imperfections, sterling M3 will remain a focus.

The money numbers will not be easy to read. Monthly bank lending figures are likely to be far more volatile

Janet Bush

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New Issue / October, 1986

A$50,000,000

Eastman Kodak Credit Corporation

14⅛% Notes Due 1989

Salomon Brothers International Limited

Dresdner Bank Aktiengesellschaft — Morgan Guaranty Ltd
Algemene Bank Nederland N.V. — Bankers Trust International Limited
Banque Bruxelles Lambert S.A. — Banque Paribas Capital Markets Limited — Daiwa Europe Limited
DSL Bank (Deutsche Siedlungs- und Landesrentenbank) — Kredietbank International Group
Landesbank Rheinland-Pfalz Girozentrale — McCaughan Dyson & Co. Limited
The Nikko Securities Co., (Europe) Ltd. — Vereins- und Westbank Aktiengesellschaft

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Kellogg's®

New Issue / October, 1986

A$35,000,000

Kellogg Company

14⅛% Notes Due October 23, 1989

Salomon Brothers International Limited

Dresdner Bank Aktiengesellschaft — Goldman Sachs International Corp.
Algemene Bank Nederland N.V. — Bank Mees & Hope NV
Banque Bruxelles Lambert S.A. — Bear, Stearns International Limited
Daiwa Europe Limited — DSL Bank (Deutsche Siedlungs- und Landesrentenbank)
The Nikko Securities Co., (Europe) Ltd. — Nomura International Limited
Rabobank Nederland — Shearson Lehman Brothers International

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Universal (U.K.) Limited

A wholly-owned subsidiary of Universal Securities Co., Ltd.

takes pleasure in announcing the start of operations in London

Universal Securities Co., Ltd., one of Japan's most dynamic securities houses, opens a new page in its history with the upgrading of its London Representative office to a wholly-owned local subsidiary. The new company, Universal (U.K.) Limited, sets an important precedent as a key link between the financial markets of Europe and Japan. A comprehensive portfolio of expert financial services is available.

Universal (U.K.) Limited
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INTERNATIONAL CAPITAL MARKETS

Peter Montagnon on the Bank for International Settlements' latest data

Banks lend more to one another

A SHARP increase in activity in the interbank market helped keep international bank lending buoyant in the second quarter of this year, according to figures released this morning by the Bank for International Settlements in Basle.

Net of exchange rate adjustments, international bank lending increased by $73.4bn during the quarter, its second highest expansion since 1981, but of this total $58.2bn was cross-border lending between banks themselves.

Altogether, net new final lending through the international banking system totalled only $30bn during the quarter. This was an increase on the $25bn recorded during the first quarter but a feature was very slack demand for bank credit from borrowers in the main industrial countries which took only $22.8bn in new loans in the second quarter compared with $32.5bn in the first.

The latest BIS figures for the second quarter thus present a picture of a very liquid international banking system. Among the reasons for the increase in interbank activity recorded by the BIS was a $27bn surge in the main offshore centres of the Caribbean, Middle East and Far East. This "may have been partly a response to reductions in the reporting of offshore centres' deposits and credit business with outside-area countries, particularly the developing countries."

But there was also evidence of a continued build-up of activity by Japanese banks which normally unwind their interbank positions in the second quarter after their financial year ends on March 31. Cross-border interbank business involving Japanese banks increased by $16.7bn during the quarter compared with a decline of $4.5bn in the same period of 1985.

Given the slack demand for credit in the main industrial countries, international banks concentrated their final lending efforts elsewhere, though there was still no overall increase in lending to non-oil producing developing countires. Among the more buoyant sectors was Eastern Europe which took $2.8bn in net new loans, including $2.4bn raised by the Soviet Union.

Smaller developed countries were also active borrowers including Turkey which took $700m as did Leichtenstein, although the BIS gives no hint of what the funds might have been used for.

Opec countries drew a further $7.4bn on their deposits with international banks as the oil price fell — they had already withdrawn $6.9bn in the first quarter — but they raised little in the way of new loans. Algeria accounted for almost all the $600m of new international bank lending to Opec countries during the second quarter.

One of the factors which has dampened demand for international bank credit in the main industrialised countries over recent years has been the preference of borrowers in these nations to raise funds in the rapidly growing international bond markets. During the second quarter this had a paradoxical effect of boosting international bank lending, the BIS records.

Throughout the first half of this year banks were large buyers of longer-term securities both for their own account and as a result of their trading and placement activities in the market. During the slowdown in bond market activity which occurred in the second quarter banks "appear at times to have held substantial amounts of securities the issues of which they had underwritten." Such holdings appear as bank lending in the BIS statistics.

NEW INTERNATIONAL BANK FLOWS

	1985 Q1	1985 Q2	1986 Q1	1986 Q2	Outstanding end June
Gross new lending	60.5	12.9	27.4	73.4	2,771.7
Interbank lending	58.1	−4.4	24.3	58.2	1,673.5
Lending to non-bank in main industrial countries	2.2	8.3	10.5	8.1	394.2
Lending to Eastern Europe	−1.1	3.5	−0.4	2.8	67.3
Lending to non-Opec developing countries	−0.7	3.4	−4.8	—	356.2

* Figures in $bn at constant exchange rates represent increase or decrease (−) in outstanding loans during period.

The latest BIS report also carries statistics on overall activity in the international capital markets during the first half of this year. They show that final net financing provided by the bank loan and bond markets combined totalled $105bn during the first half, the same as in the second 1985 half but up on the $70bn recorded during the first half of last year.

New international bond issues totalled $111bn during the first half compared with $83bn in the second half of last year, while syndicated bank lending rose modestly to $13bn from $9bn. Total new Euronote facilities rose to $34.3bn from $26.3bn.

Total Euronote business was higher than the amount of new floating-rate notes and syndicated loans combined, the BIS says. Moreover a feature was the sharp increase in non-underwritten facilities which accounted for 72 per cent of business volume compared with 33 per cent in 1985.

The figures confirm the emphasis this year on so-called Eurocommercial paper and certificate of deposit business. Demand for such finance was boosted strongly by the volume of facilities arranged for banks in Japan, whose ability to fund at short term has been increased since last year with the lifting of an official requirement that they match medium-term lending with medium-term liabilities. Facilities arranged for entities in Japan jumped to $7.2bn in the first half of tihs year compared with $500m in the whole of 1985.

The BIS notes that the amount of paper issued under Euronote facilities remains smaller than the volume of programmes outstanding, but it says that total placements of Euronotes at the end of June amounted to some $25bn, or $10bn more than at the end of 1985.

All sectors of the capital markets saw considerable activity in refinancing with borrowers arranging new facilities to replace older, more expensive ones or to lock into attractive fixed-rate finance.

Germany urged to streamline markets

BY ANDREW FISHER IN FRANKFURT

WEST GERMANY will have to intensify its efforts to make its securities markets more attractive as a result of London's Big Bang which takes place today, Mr Wolfgang Roeller, chairman of Dresdner Bank, warned Frankfurt bankers over the weekend.

The changes in the London market, with the end of fixed commissions and of the broker/jobber systems and the admittance of commercial banks to securities trading, "will considerably sharpen competition, the battle for market shares."

Mr Roeller said actions to improve German markets would mainly involve streamlining the stock market system and bringing about closer co-operation between the country's bourses.

Moves were already being made in this direction, but the stock exchange turnover tax (*Boersenumsatzsteuer*), which inhibits secondary market trading, would have to be removed.

Most Germanbankers expect the turnover tax, whose proceeds have risen sharply through increased trading and should approach DM 1bn ($500m) in 1986, to be abolished if as is generally expected, the present conservative government, which has indicated it will drop the tax, retains power in next January's election.

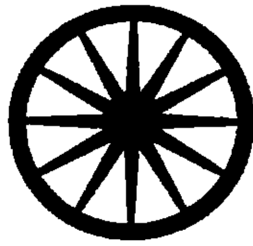
Without the right moves to improve the German market, MrRoeller warned, it would slip down the international league.

There are eight German bourses, with Frankfurt the biggest and Duesseldorf in second place. A new association has bene set up to forge closer trading and technical links between them and to prevent Germany from losing ground to London, New York and Tokyo.

Mr Roeller said securities business carried out by German banks had grown in recent years to "completely new dimensions." In Germany, share turnover had risen almost sevenfold since 1981.

Foreign dealings in German shares had increased markedly in the 1960s and would again show a big increase this year to a further record, he said.

New Issue — *This announcement appears as a matter of record only.* — OCTOBER 1986



Yen 10,000,000,000

Postipankki

8½ per cent. Bonds due 1992

Issue Price 117¼ per cent.

IBJ International Limited — Postipankki

New Issue — *This announcement appears as a matter of record only.* — OCTOBER 1986

U.S. $70,000,000

Republic of Finland

8⅜ per cent. Notes due 1996

Issue Price 104 per cent.

IBJ International Limited

Goldman Sachs International Corp. — Morgan Stanley International

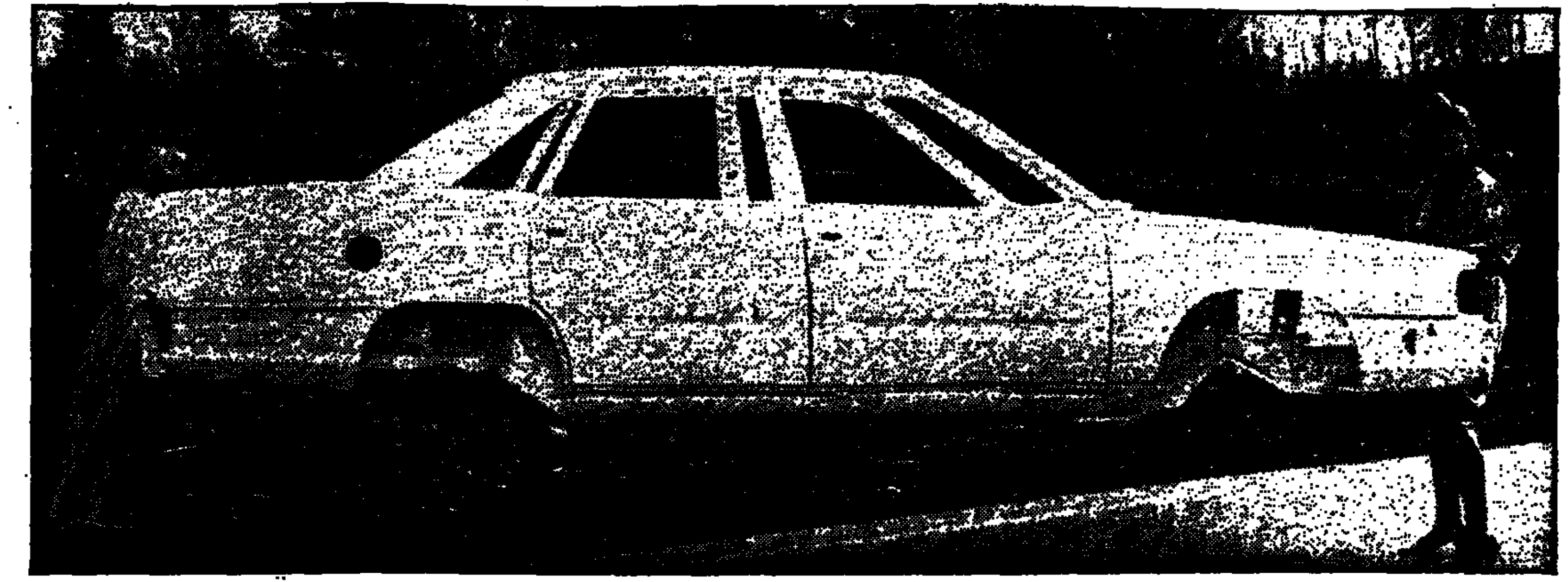
Postipankki — Prudential-Bache Securities International

FINANCIAL TIMES SURVEY

Monday October 27 1986

Aluminium

The industry is celebrating 100 years of this light and versatile metal, in the face of considerable changes in primary production. More uses are constantly being found as aluminium meets the challenges of newer materials.



Joint venture car body produced by Audi of West Germany and Alcoa shows the lightness that aluminium structures can achieve

Risks in the world market

IN THE year that marks the one-hundredth anniversary of the Hall-Heroult electrolysis process which made possible the economic high volume production of aluminium, producers of metal have become increasingly resigned to a world market burdened with risks.

Major structural changes *starting in the late 1970s* are still working their way through among the main primary producers of this lightweight metal, which has come to be increasingly used in packaging and construction as well as in more highly engineered areas such as aerospace and automotive components.

With demand now growing at little more than 2 per cent a year—in an industry which had grown used to an 8 per cent growth rate in the early 1970s—prices still rising only slowly and with some new cost pressures creeping up on the horizon, instability remains a fact of life.

The ever present threat of *newer materials,* in particular plastics, now benefiting from low oil prices is a constant nagging worry, too.

The recent structural changes have been global in character. Big new smelters are now invariably built in countries with either low energy costs or governments that subsidise aluminium for strategic reasons, and this has resulted in new capacity in Canada, Australia, Norway, South America and the Middle East.

The closure programme in high-cost areas that has seen the removal of 20 less efficient smelters since the late 1970s, mainly in Europe, the US and Japan, is slackening now as many of these generally smaller units are *already shutdown.*

A number of smelters in the US are still on the sick list, however, and a major question

By Nick Garnett

mark hangs over West German smelters in the next four years as their power contracts come up for renewal.

Some analysts also wonder whether the Japanese smelting industry, badly affected by high energy costs in the early *1980s* and now producing less than 300,000 tonnes as against 1.6m in the 1970s, can survive the *change in the yen value.*

Three other trends though are becoming increasingly important in an industry which *sold 12.5m tonnes of* aluminium last year with consumption expected to rise only marginally to 12.7m, according to analysts at the Commodity Research Unit.

First, many of the big primary producers are moving increasingly downstream, concentrating more of their effort and money on the higher value added activities of extrusion and fabrication. These activities —which represent the industry's general move towards more engineered products—are in addition to those operations managed by specialist extrusion and fabrication companies.

These latter businesses have had a lucrative year, selling relatively high-cost products with low production input costs. A lot of investment, too, is being put into can sheet and foil operations by the primary *producers.*

Second, a number of primary producers have embarked in the past few years on strate*gies up to 10 years' duration* aimed at reducing their dependence on aluminium. This trend is accelerating.

Alcoa, with 85 per cent of its sales dependent on the metal, has a target to get this down to 50 per cent by 1995 and has been buying up small businesses or getting into joint ventures in areas like fibre optics, ceramics and even plastic packaging.

Alcoa is no longer interested in building new smelting capacity other than what it needs for its own consumption. Instead, *it* wants to be *known* as a materials company.

Charles Parry, the company's chairman and chief executive, *says it will be acquiring* between five and ten new businesses in the next 16 months, its purchases so far having turnovers of between $15m and $25m.

Alusuisse of Switzerland said recently that it is reducing its smelting capacity by 30 per cent and will no longer remain a big player in the aluminiums producers' league. Even Alcan of Canada which set out to achieve the position of the world's number one primary producer—and did so—says — that at least in Europe it would like to see its direct dependence on aluminium fall from the present 94 per cent to 75 per cent over the next 10 years.

Two small producers, Arco and Martin Marietta in the US, have actually got out of aluminium *smelting altogther in the* past year.

The difficulty with these diversification strategies is that *they take a long time to change* a company fundamentally.. It is not difficult to find small high-tech companies ready to be scooped up but it takes a major purchase or a lengthy period of nurturing a small acquisition to alter drastically the foundations on which a company *is* built.

Third, the relative power of primary producers is changing. The traditional big six—Alcoa, Reynolds and Kaiser in the US, Alcan in Canada, technology *pioneers* Pechiney in France and Alusuisse have been joined in the past few years by California-based Alumax and Comalco in Australia.

The merger this year of the aluminium business of Norsk Hydro of Norway with those of ASV, the Norwegian state-owned producer, and its subsequent purchase of five extrusion plants from Alcan in Europe has catapulted Norsk Hydro into the top ten, too.

The aluminium industry has been reacting to the pressures in part by climbing into more *collaborative deals to spread the* cost of new development. Many of them are beginning to feel that they have a strategy for themselves at least over the next half decade.

Most aluminium companies are getting by. Even those that have been hurt very badly such as Kaiser in the US have steeled themselves to try to put their operations on firmer foundations, partly through capacity closures but also by investment, particularly on quality improvement. *A big incentive for this* has been the high quality standards of Japanese-made can sheet.

The price of primary aluminium on the London Metal Exchange is lower than producers would like—about $140 a tonne this year, up 10 per cent on last year with possibly a 10 to 15 per cent rise in store next year—but it has been relatively stable. One thing metal *consumers dislike intensely is* price volatility — something which has plagued aluminium.

Based on this view the industry might be hard pressed in the long term to meet primary aluminium demand if new capacity is only planned to grow at the rate of just 1 per cent a year as predicted by some in the industry. This is a view with which others in the industry disagree.

Nevertheless, the aluminium industry still labours under many short and medium-term worries. Many primary pro*ducers are not making* enough money to cover investment while others, especially in Europe, are laden with debt.

*Packaging and the can indus*try are likely to become even fiercer battlefields while PVC has grown very rapidly in construction.

In the US where there is a big aluminium recycling programme aluminium accounts for 95 per cent of all beverage cans. This is way ahead of Europe in penetration, giving the aluminium suppliers hope *that there is a big potential* European market.

In the medium term, too, there could be some developments that help the producers. A significant rise in oil prices would erode some of the production cost advantages enjoyed by plastics.

Technological limits on the lengths to which weight reduction and downsizing can be carried must eventually be reached. A greenhouse requires 50 per cent less aluminium than it did ten years ago and many types of wrapping 30 per cent less.

A spurt of world economic growth would also help primary producers, though there *is a potentially big catch here.* Capacity and demand are largely in equilibrium and some analysts believe the *industry* has a relatively small amount of elbow room to increase supplies. Plant utilisation is quite high and the steep erosion in worldwide stocks — to around 1.8m tonnes according to the UK Aluminium Federation — is continuing. Against demand of 12.5m tonnes this year, output is likely to be around 12.4m tonnes.

Plastic is handicapped by being very difficult to recycle. But with the plastics industry stepping up the challenge—producing new coatings for example to keep the fizz in drinks, a notorious weakness of plastic in products with a long shelf life. Some see copper to as a *major challenger on cost to* aluminium.

Aluminium with its lithium alloys and other variants has successfully defended its positon as a supplier to aerospace, one of the world's leading industrial growth sectors. Other potential markets such as the vehicle industry have not, however, proved as receptive as aluminium hoped for back in the 1970s.

The Hall-Heroult process gave the world a new and very versatile metal that could be produced economically. The people who now make a living from that metal need nimble feet to meet the challenge of shifting demand.

Origin of the industry

The discovery of the modern electrolysis process for smelting aluminium from alumina was made independently by two chemists aged 22 on two different continents in 1886. In Ohio, Charles Martin Hall heated cryolite on a gas burner, added alumina and passed an electric current through a carbon anode. He found pods of pure aluminium when the cryolite cooled. In France, Paul-Louis-Toussaint Heroult produced aluminium from very similar experiments. Both men were granted patents, manufacture began and the metal, until then a luxury, quickly became plentiful.

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This module door for the Tornado fighter is superplastically formed in aluminium. It's a recent innovation which allows the overall design to be greatly simplified and the number of components used in its construction greatly reduced.

Take a close look at the recently announced Leyland TX450 Technology Demonstration truck. Its aluminium chassis design, developed by our Application Development Department, provides many times the torsional stiffness of a conventional steel frame. And it's also thirty percent lighter.

Aluminium awe.

1886-1986 ONE HUNDRED YEARS OF ALUMINIUM

Both the EAP, the new combat demonstrator from British Aerospace and the F-15 STOL demonstrator from McDonnell Douglas, utilise a revolutionary new alloy called Lital. Developed by Alcan, its lower density and improved stiffness enable air-frame manufacturers to reduce weight by up to fifteen percent.

Like aluminium itself, we're strong, versatile and have an enormous capacity for making technological innovation possible.

British Alcan Aluminium. The awe inspiring force behind aluminium.

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The United States

Output expected to keep sliding

WHILE 1986 has had its comparative bright spots, few would argue that the medium to long-term outlook for the US primary aluminium sector is anything other than grim.

Despite considerable cost-cutting progress on various fronts in recent years, US smelters remain among the Western world's least competitive. With overall demand growth sluggish and capacity in low-cost countries such as Canada, Australia, Brazil, Venezuela, Norway and the Middle East set to expand further, US output can be expected to continue to decline—although its demise will be less spectacular than that of the Japanese primary sector since 1981.

Certainly 1986 output will be lower than previously anticipated owing to strike disruption and one major plant closure. Since 1971 the US share of the Western world's output has fallen from 41.3 to 28.5 per cent. It would be even lower now but for a tendency for some plants which might otherwise be shut permanently to remain on stream as rolling facilities.

After the traumas of 1985 when combined losses totalled almost $500m (including over $570m in after-tax charges for various asset write-downs), the big three US-based producers are faring rather better in 1986. Alcoa and Reynolds Metals both announced big improvements in second-quarter earnings to $53.3m and $28.8m respectively.

Struggling Kaiser's nine months deficit has meanwhile been trimmed to $24.6m from $78.7m in 1985. But these gains have been achieved, in large measure by sourcing more and more ingots from outside the US, by concentrating sales on comparatively high added value products and, particularly in Alcoa's case, by developing advanced materials interests often in non-aluminium related fields.

These include fibre optics and advanced ceramic, while the company also recently formed a partnership with Metal Box to develop a line of plastic containers for the US food industry.

US producers benefited considerably as well from a sharp increase in domestic price levels between November 1985 and March 1986. During this period, the Metals Week US transaction monthly average rose by 16.7 cents to 61.8 cents a pound, while its premium over the London Metals Exchange cash peaked at 8.8 cents a pound in March.

The rise was caused primarily by a rush on the part of consumers to build up stocks in advance of the expiration of several labour contracts from May 31 onwards. First half 1986 US domestic ingot order receipts rose 95 per cent from corresponding year earlier levels, while North American producers' inventories plummeted by 277,000 tonnes during the first four months of the year.

Prices began to fall again in April, however, and not even the relatively severe interruptions to production resulting from a series of strikes, or the weak dollar, have been enough to turn the tide.

About half of the 23 US primary smelters operating at the beginning of the year have been hit by strike action since the beginning of June. The vast majority continued to produce at reduced levels but cumulative output losses have been substantial.

Alcoa was the first to be struck at its major plants on June 1. A new three-year contract was eventually agreed with union officials in early July but disruption continued at the company's important Warrick facility until late August.

During the stoppage, Alcoa said that it was permanently closing its Vancouver, Washington, smelter as part of a previously-announced 350,000 tonne pruning of its company-wide production capacity.

Additional strikes occured at Alcan's Sebree plant, beginning on June 7; at Ormet's Hannibal smelter, from July 2; Alumax's Eastalco facility, from July 31; Comalco's Goldendale plant, from August 1 and Noranda's New Madrid smelter, from August 31. Disputes at Sebree, Eastalco and Hannibal still remain unresolved.

Alcoa, Reynolds (where workers stayed on the job despite the breakdown of initial negotiations), Comalco and Noranda each secured wage/benefits concessions in the labour contracts eventually agreed which will help trim production costs further.

All companies had been under pressure to secure concessions not only because of their high costs compared with international competition but also Kaiser's 1985 success in negotiating significant reductions in remuneration packages with its workforce.

But these apparent victories may yet turn out to be pyrrhic. While strike disruption did not succeed in propping up prices once the first quarter consumer stock build-up had petered out, it was a major factor underlying the sharp rise in imports which has charactertised the US market this year.

In the first six months, US ingot imports totaled 734,000 tonnes, up almost 75 per cent from the corresponding year's earlier level of 420,000 tonnes.

While Canada remained the dominant supplier (partly helped by Alcan's ability to supply its US downstream facilities from its Quebec smelters while disruption continued at Sebree, Latin American imports have also been rising significantly. In the second quarter alone, the US imported 85,000 tonnes of Brazilian and Venezuelan ingots.

The major US integrated producers are contributing to this trend by sourcing many of the ingots from within their own systems in other countries. But they will be more concerned by the rising volume of foreign semis being shipped into the US.

This was particularly evident in May and June, when US rolled products imports totalled 62,000 tonnes. "The import-export imbalance for June was very pronounced," says Mr Peter Berner, a New York-based analyst.

The reduced market share of domestic ingots producers, though accelerated by the effects of strike disruption, was, in other words, to be expected. But, US semi-producers had generally been holding their own — with the help of an approximately 3 per cent ad valorem imports duty.

The worry now is that market share lost during the strikes will not be regained. As Mr Angus MacMillan of Shearson Lehman Brothers, the London analysts, wrote in a recent paper: "It would be ironic if, in their attempt to make their operation more efficient, the producers have opened the door wider to permanently higher imports of both ingots and fabricated products."

David Owen

North America's aluminium production

SHIPMENTS ('000 tonnes)	1981	1982	1983	1984	1985
Alcoa					
primary	186	315	346	318	370
fabricated	1294	1235	1445	1457	1373
Alcan					
primary	510	758	728	577	878
fabricated	1037	949	1174	1213	1340
Alumax					
primary	174	124	258	242	302
fabricated	214	221	257	479	477
Kaiser					
primary	171	216	144	170	37
fabricated	670	566	663	571	637
Reynolds					
primary	141	81	132	108	105
fabricated	661	797	909	913	873

Source: Shearson Lehman

Canada

Quebec benefits from cheap power

LOW-COST power brought aluminium smelting to Quebec at the turn of the century, and by 1945 the province had the world's largest single plant with 450,000 tonnes annual capacity.

After the war, aluminium soon became a growth metal, finding scores of new uses in transport and in construction. Quebec got a second smelter in the 1950s, and in the 1960s it was British Columbia's turn, with the Pacific rim countries its major market.

The two world energy crises, changed the aluminium smelting map rapidly again. Quebec has been adding to capacity, but British Columbia lost its chance.

Quebec's latest addition is the L'Aluminerie de Becancour, a C$1bn smelter on the St Lawrence south shore about 80 miles north-east of Montreal, and now undergoing a remarkably smooth start-up. Two potlines totalling 230,000 tonnes should be operating next year, and no one has been happier to see a better world supply-demand balance emerging in aluminium this year than the Pechiney team in charge.

Pechiney three years ago revised its complete strategy for North America because of the high cost of energy in the US—the world's largest market for the metal. The result was a 50 per cent interest in the Aluminerie de Becancour, with 25 per cent held each by the Alumax group of the US and the Quebec government through its holding company SGF group.

But in those three years, further changes have come about. Pechiney has decided it does not need 50 per cent of the plant's metal, and has sold half its interest and supply allotment to Reynolds Metals of the US, already the second largest aluminium producer in Canada after Alcan Aluminium.

Reynolds has just completed a C$500m investment to add two potlines at its Baie Comeau smelter, east of Quebec city, bringing total capacity there to about 275,000 tonnes.

Canada now has slightly more than 10 per cent of the free world aluminium smelting capacity of about 13m tonnes, and most of that is in Quebec because of its ample supply of low-cost energy. Of the 300,000 to 350,000 tonnes which will come on stream in 1986-87 in the non-Communist world, 115,000 tonnes will come each year from Aluminerie de Becancour.

Alcan Aluminium has about 800,000 tonnes in Quebec and 270,000 tonnes in British Columbia, Reynolds 275,000 tonnes at Baie Comeau and nearly 60,000 tonnes at Becancour. Three-quarters or more of the production from all these plants is exported to the US, Asia and Europe, and a lower American dollar will bring this export activity into better financial balance.

Aluminium's last major market breakthrough was the aluminium can. The industry may be able to put more aluminium into cars, structural members and castings, in competition with plastics and composites. Internationally each producer, while stressing its core business is still aluminium smelting and semi-fabricated products, is energetically investing in higher-technology areas.

But much of this market development and research is being done outside Canada, and Canadian governments would dearly like to get more of that activity. Quebec particularly has become very dependent on smelting which takes the brunt of the aluminium cycle and absorbs large amounts of power at low cost—except in the case of Alcan in the Saguenay with nearly 2,500-MW of captive power built many years ago and its own power in northern British Columbia.

The Canadian industry sees inventory down to well below 4- tonnes and breaching the low level of 1983 when ingot reached 70 cents (US) a pound. As long as economic growth continues, with lower oil prices and lower interest costs, they see further price gains from the 1986 London Metal Exchange range of 50 to 55 cents (US).

They have been running at about 90 per cent of capacity, and the bear psychology of the world commodity markets is beginning to lift, they say.

Robert Gibbens

Western Europe

Producers pull up primary roots

WESTERN EUROPE'S large aluminium industry is now being subjected to some of the biggest structural shifts in its history.

In the past year Norsk Hydro of Norway has leaped into the world's top ten producers with the merger of its aluminium division with that of ASV, the country's largest aluminium producer.

This went in tandem with its purchase of five extrusion plants from Alcan in Europe to soak up the large amounts of raw aluminium Norsk now has on tap.

Meanwhile Alusuisse, which made a loss of $426m last year, intends to drop off the league table of the world's leading producers of primary aluminium and cut sharply its smelting capacity.

Mr Hans Jucker, chief executive of the Swiss aluminium group, said last month that it would take three years to work its way out of its "present crisis." Its plan is to reduce installed annual capacity of 410,000 tonnes by 30 per cent over that period.

Within the next two years a great deal of attention will be focused on the survival prospects of the West German smelters.

Long term supply contracts they have with the power utilities are due to come up for renegotiation over the next three years and the increases in charges now mooted by the utilities could wipe out large sections if not all of the West German smelting industry.

VAW, the West German producer, has four sites in its home country. Other companies with wholly or jointly-owned plants include Alcan at Ludwigshaven, Kaiser at Voerde, Alusuisse at Essen and Rheinfelden, and Reynolds in Hamburg.

Ten years ago Europe produced about a third of the non-Socialist world's output of 9.9m tonnes, according to the John Bird consultancy. Last year Europe's share had declined significantly, accounting for 3.6m tonnes out of 12.3m.

Primary output might be swinging away from Europe towards Canada, Australia and South America but in Pechiney, the continent has a technological leader.

The French nationalised aluminium and special metals group, which is due to be privatised, has been steadily rationalising on its home territory by shutting down smaller plants and concentrating on low-cost facilities abroad. In the summer it announced a plan to cut its French aluminium capacity by more than a third to 220,000 tonnes.

That was why it came as a surprise to much of the rest of the industry when Pechiney began reducing its stake in the $1bn Becancour aluminium plant in Quebec, one of the key centres of its North American strategy.

Pechiney now has only 25 per cent of that facility having got rid of stakes to Alumax, Reynolds and the Quebec government.

A number of other European-based companies are trying to find routes away from their primary aluminium roots.

Alusuisse is gearing future investments to chemicals and the higher value added end of the aluminium business. This move includes capacity expansions for composites in West Germany, aluminium castings in Switzerland and foam panels in Switzerland and the US. It is also building new plants for metal cans in France, and ceramic filters.

Alcan has been offloading operations in Europe in a programme to get out of some businesses it does not want to remain in and to generate $140m in cash to help it redirect the slant of its business.

The company, used to cheap power from its north American operations and not a noted extractor of the best rewards from its assets, wants its direct dependence on aluminium in Europe to drop from the present 94 per cent of turnover to no more than 75 per cent by the mid-1990s.

Apart from the sale of its Continental Europe extrusion plants to Norsk Hydro, Alcan in the past 18 months has sold its minority interests in a Netherlands aluminium products group and in Unidare of the Irish Republic.

Many European primary producers will continue to concentrate more of their energy in the higher value added downstream activities.

Extruders, whether as individual companies or organisations like the Aluminium Extruders Association of the UK whose members have done very well this year will continue to try to influence designers, architects and materials purchasers to buy aluminium in preference to more traditional and newer materials.

It seems highly unlikely however that there will be much new primary smelting capacity built in Europe and possibly none in the south and centre of the Continent.

Nick Garnett

Indalex. The outlook is brighter than ever.

This year we're celebrating our Silver Anniversary as aluminium extruders.

And we've a lot to celebrate. Not least the record of achievement that has singled us out from our inception.

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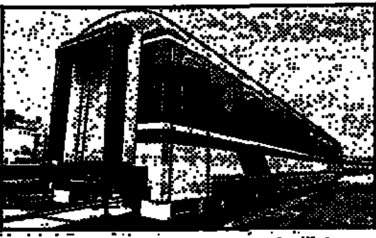

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Australia

Moving up the world league

AUSTRALIA looks set to consolidate its position in the world aluminium industry during the remainder of the 1980s and into the 1990s, especially with the devaluation of the Australian dollar.

Australia should remain the largest producer of bauxite and alumina and, with the progressive commissioning of the smelter at Portland, Victoria, from next month through to July 1988, should move up to the position of third largest non-socialist primary world producer. At the beginning of this decade it ranked tenth.

Primary aluminium production has been the greatest growth area in the late 1980s for the Australian industry. The number of smelters has risen from three to six (including Portland) and capacity has increased from 367,000 in 1980 to 1.17m when both Portland potlines are completed.

This is a far more sober growth rate than initially mooted at the beginning of the decade when a total of six, possibly seven, new smelters were planned to bring Australia's primary capacity to between 1.7m and 1.8m tonnes by 1986.

However, a number of factors —the downturn in the world aluminium industry and inflationary trends affecting capital, labour and energy costs in Australia—caused these projects to be cancelled or built elsewhere. Canada in particular, and also Brazil, became more favoured locations for new capacity.

After completion of the politically controversial Portland smelter, no further expansion of primary capacity is currently anticipated by any of the producers at least until the end of the 1980s and probably until well into the 1990s. This view is based on expected growth rates for world aluminium demand of under 2 per cent annually.

Australian producers see ahead of them a period of consolidation and, barring any major cost increases in Australia or changes in Government guidelines, look forward to a period of maintaining, and perhaps improving, their position in the world export industry with a corresponding return to higher profitability.

The Australian primary aluminium industry has become increasingly dependent on export markets—local demand will account for only some 0.3m tonnes of estimated 1986 production of some 0.9m tonnes. Australia's major export market for primary aluminium should continue to be Japan, followed by other countries in the Pacific Basin.

Recently, Australia has begun to regain its competitiveness following Australia's dollar devaluation against its major trading partners. In sterling terms, the average LME cash price for 99.5 per cent aluminium has fallen from £926 in 1984 to £774 in the first eight months of 1986.

By contrast, in Australian dollar terms, the average LME price has risen from $1,407 in 1984 to $1,683 in the same period. Currently it is fluctuating between A$1,800 and A$1,900 per tonne.

The devaluation of the Australian dollar has also resulted in companies with substantial overseas loans facing increased interest payments and high extrordinary exchange losses on overseas loans. After bleak times, however, Australian producers are now saying that the dollar's devaluation is beginning to benefit them.

Trends likely to emerge in the later 1980s and in the 1990s in Australian aluminum exports appear to be a move towards higher purity unwrought aluminium products, billets and special aluminium alloys.

There were grandiose plans to increase Australia's alumina capacity at the beginning of the 1980s. In addition to the Wagerup and Worsley refineries built in the 1980s, the construction of three additional refineries together with the expansion of existing refineries was under consideration. This would have raised Australian alumina refining capacity to somewhere between 11.6m and 14.8m tonnes per year.

These plans were substantially reduced in line with the reduction in planned primary capacity. Now possibly only Wagerup and Worsley will expand, given a major upturn in world demand for alumina.

Consideration of new alumina refining capacity has been deferred until at least well into the 1990s.

Bauxite has been the Cinderella of the Australian aluminium industry in the 1980s—it is the only product where there has been a decline in exports. No improvement in the outlook for export is currently foreseen.

Jan E. Larsen

Jan E. Larsen, is a consultant with Australian Mineral Economics Pty, Sydney, Australia.

Who's who in Australian aluminium

	Capacity ('000 tonnes)	Largest shareholder	%
PRIMARY ALUMINIUM			
Alcan Australia:			
Kurri Kurri, NSW	150	Alcan	70
Alcoa Australia;			
Point Henry, Vic	165	Alcoa	51
Boyne Smelters;			
Gladstone, Qld	208	Comalco	30
Comalco;			
Bell Bay, Tas	117	CRA	67
Portland Smelter;			
Portland, Vic	300*	Alcoa Australia	50
Tomago Aluminium;			
Tomago, NSW	230	Gove Aluminium	35
		Pechiney Aust	35
Total Australia	1,170*		
*from mid-1988			
ALUMINA			
Alcoa Australia;		Alcoa	51
Kwinana, WA	1,400		
Pinjarra, WA	2,400		
Wagerup, WA	500		
	4,300		
Nabalco;			
Gove, NT	1,300	Alusuisse	70
Queensland Alumina;			
Gladstone, Qld	2,736	Comalco	30.3
Worsley Alumina;			
Worsley, WA	1,000	Reynolds	40
Total Australia	9,336		

Source: Australian Mineral Economics.

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Terminal markets

A need to convince the industry

TURNOVER on the LME aluminium contract in the first nine months of this year was about 30 per cent down on the same period a year ago—the legacy, most believe, of the pervasive effects of the tin crisis which hit turnovers on all LME contracts as market users stepped back, fearing a domino collapse of the brokers on the Exchange.

Now that danger appears averted, the task facing the LME in aluminium, a contract it now regards as second only to copper in importance, is two-fold. Not only must it re-instill confidence in the stability of the market as a whole, it must also persuade those sections of the aluminium industry which still regard the LME as a speculator's bear garden that the Exchange really does offer a necessary and viable service as a medium for hedging risk.

Addressing this second objective, the LME announced in September that it is looking at introducing a second aluminium contract, denominated in dollars rather than sterling, based on metal grading 99.7 per cent aluminium rather than 99.5 and with an expanded warehouse base in the Far East.

For most, this represents a step in the right direction. Aluminium trading is conducted predominantly in dollars and 99.7 is now by far the more commonly traded grade. There are some fears in certain trade circles that by upgrading from 99.5, and thereby excluding some material, liquidity could suffer, but most do not consider this a serious threat.

But if the additional, potentially more representative, contract answers some of the aluminium industry's objections to the LME, it far from satisfies them all. For some in the producing sector, the LME is still the focal point of everything they do not like about the evolution of the aluminium busines.s

They hark back to the days when the major North American and European producers had effective control over the market — and its prices. But in the post-oil crisis era, a welter of new producers, most located in areas of low energy costs, have risen up and broken the market dominance of the "six sisters" — Alcoa, Alcan, Kaiser, Reynolds, Pechiney and Alusuisse.

The aluminium traditionalists believe this process has turned aluminium into a "commodity" — though none seem particularly well able to describe what it was before. The launching of the LME aluminium contract in 1979, (amid howls of industry protests) and its subsequent consolidation and success has contributed to this "unhelpful" development, they argue.

In truth, the behaviour of the LME market in the last six months has not been particularly helpful to efforts to tempt back one-time users, or bring in the reluctants. For three periods since June high premiums have been payable on metal needed for prompt delivery over the prices for forward metal, a feature many in the industry charge in no way reflects the underlying supply and demand or the flow of metal into consumers' works.

This recurring "backwardation" is attributed by some to manipulation by one major merchant who has sought to take advantage of the relatively low stocks in LME warehouses. LME stocks have dropped by almost 40 per cent in the last year to around 122,000 tonnes and the market is therefore potentially vulnerable to this type of action. But this is the sort of publicity the LME can well do without.

Others believe the explosive growth of options business in aluminium lies at the root of the recent nearby shortages. They suggest that frantic buying for certain key dates by companies who fear they will have to deliver metal against options they have granted, has exacerbated the short-term tightness in the market.

And there can be no doubt that options-related transactions now represent a sizeable portion of LME aluminium business. According to Mr Dieter Worms of brokers Shearson Lehman Metals, such deals now account for "solidly above 50 per cent of total aluminium turnover."

The LME clearly has a major job to do to convince the industry that options do not make the Exchange even more unpredictable and volatile than they already perceive it to be. To this end, the LME options sub-committee, headed by CRT's Mr Paul Shuman, is aiming to introduce a formal traded options contract next spring.

This at least should bring the business out into the open and significantly aid transparency. A further proposed change to give options granters up to two weeks to deliver metal should also help ease the "artificial" squeezes on individual dates, the proponents argue.

But perhaps the most fundamental challenge facing the LME in endeavouring to increase usage of its aluminium contract is to discourage the view held in certain quarters of the industry that LME prices necessarily mean low prices for the metal.

Laying the blame for today's depressed prices largely at the door of the LME, industry traditionalists point to the present low level of stocks, not only on the Exchange itself but also at producer and consumer works, and question why LME prices continue to languish at low levels.

Indeed, with the aluminium industry generally running with lower stocks in its system than perhaps ever before, Mr A. Stephens, president of Kaiser Aluminum, told a Metal Bulletin conference in San Francisco last month that inventories had now fallen so low that if demand were to expand by as little as 1½-2 per cent over the next two years, prices could rise by as much as 30-35 cents a lb from their present 60 cents level.

However, most impartial observers consider the current aluminium prices owe more to continuing over-production throughout the aluminium supply chain than to the existence or otherwise of the LME. This over-supply runs downstream from the developing world's bauxite miners, through the over-crowded alumina sector, to the primary smelters.

High production levels are also now seeping down even into the value-added fabricated sectors, which also show signs in several areas of becoming, to use the industry's pejorative parlance, "commodity markets."

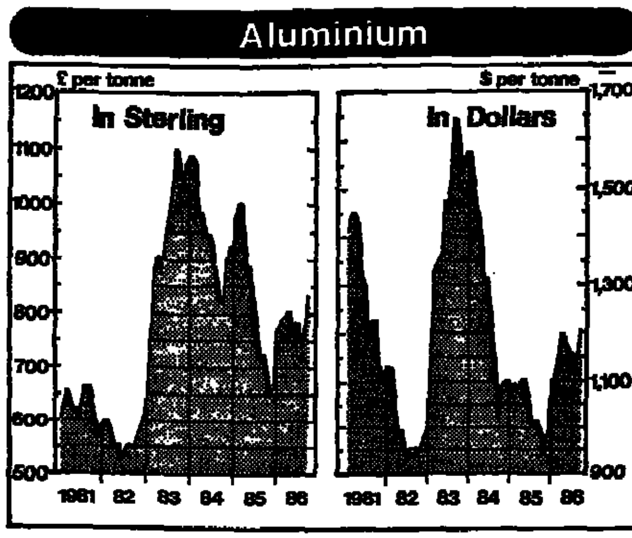
Today aluminium prices have consolidated above their end-1985 lows of around $1,000 a tonne and have settled close to $1,300. But given the 20 per cent depreciation of the dollar in the same period, this is cold comfort indeed, particularly for non-US producers.

And for many in the market, including Mr Ralph Kestenbaum of Gerald Metals, aluminium's price growth potential in the foreseeable future is restricted.

He says: "Aluminium should benefit with other commodity markets from the end of economic deflationary trends and a shift back to an inflationary environment. But since the industry trend towards production cutbacks and month-on-month stock downturns seems to have ended, upward price movement is likely to be limited."

David Gilbertson

David Gilbertson is Joint Editor of Metal Bulletin.



Middle East

Hold on planned new smelters

DESPITE an overall decline in the production of aluminium and overcapacity worldwide, the Middle East has been increasing its production every year since 1981.

There are currently three smelters in the region in Egypt, Bahrain and Dubai, all of which appear to be working beyond their rated capacities.

Nevertheless, the trends point to a slowdown, and declining demand has put a temporary halt to plans to commission new smelters in Saudi Arabia and at Umm Al Quwain in the United Arab Emirates.

In the context total world aluminium production of 15.5m metric tonnes, the Middle East's contribution of 500,000 tonnes is small and appears to be less affected by market conditions than the major industrialised countries.

Alba, the first aluminium smelter in the Arabian Gulf, was constructed in 1967 in Bahrain. Ten years later, Dubal, the Dubai Aluminium Company, built its smelter.

When Alba was built, energy was abundant in Bahrain but cheap everywhere. Speaking to IPAI members at the institute's 1984 annual general meeting in Bahrain, Sheikh Yamani, Saudi Minister for Petroleum and Minerals, said: "Although its availability was of paramount importance in prompting the decision to build the smelter, its price was not, since unlike our current times, no relative advantage of perceptible proportions had then existed in Bahrain in this respect over other energy exporting countries."

The Bahrain Aluminium Smelter which was originally designed to produce 56,000 tonnes a year, is now producing around 175,000 tonnes, and according to the 1986 annual review of the world aluminium industry, published by Shearson Lehman's commodity research department, capacity is to increase to 220,000 tonnes per year by 1990.

The expansion will be carried out in stages and will involve extensive modernisation facilities and the improvement of energy efficiency.

Dubal, which is wholly owned by the Dubai Government, is the only aluminium smelter at present in the United Arab Emirates, but according to a company spokesman, there are plans afoot to establish another smelter at Umm Al Quwain, a neighbouring Emirate.

In a review of developments Dubal chairman Hamdan bin Rashid Al Maktoum described last year as one of the toughest years ever for the primary aluminium industry.

"Prices fell steadily to less than $950 per tonne, representing in real terms perhaps the lowest prices yet experienced," he said.

In spite of very difficult conditions, the company says it was able to continue producing to order only and was not obliged to give credit or other concessions to maintain market positions.

Boris Sedacca

Middle East Primary aluminium production

('000s metric tonnes)

	1981	1982	1983	1984	1985
Egypt	142.0	141.0	140.2	172.5	178.5
Bahrain	141.3	171.0	171.7	177.3	174.8
UAE	106.0	148.7	151.2	155.4	153.2
Total	389.3	460.7	463.1	505.2	506.5

Source: Shearson Lehman Bros.

Asia-Pacific

Imports likely to increase

JAPAN is the world's largest importer of primary aluminium. It imported 1.35m tonnes last year, mostly from Australia, New Zealand and Venezuela. With the smelter shutdowns this year, that figure is likely to increase.

Sumitomo Aluminium Smelting is closing down its 82,920 tonne smelter at the end of the month, stripping the company of all its smelting capacity. This is the second large smelter closure this year. In February, Shoura *Aluminium* shut down its last remaining smelter, taking off 31,690 tonnes.

These closures mean that Japan will be left with three smelters producing only 239,710 tonnes. And out of these three only one, Nippon Light Metal's 63,855-tonne Kambara smelter, has any real chance of survival: it is hydro-powered.

The cost of electricity in Japan is a prohibitive 56m/kwh compared to a world average of 17m/kwh. And Japan's electricity companies, unlike America for example, are prohibited under the Electricity Enterprise Law, from providing a flexible pricing system such as variable rates.

During the past eight years a total of 1.29m tonnes have come off stream. Toshisada Fujimoto, director of the Japan Aluminium Federation, says that such a rapid collapse of an industry is unprecedented in an industrial nation.

He offers the following analogy: "The 1.29m tonnes that we have lost corresponds almost exactly to Canada's—the world's second largest producer—output. It took the Canadians 60 years to reach that production level. And it took us only eight years to destroy ours."

In the past Japanese companies have done what they considered the next best thing to having a domestic industry: they have invested in smelting operations abroad. Japanese companies own 75 per cent of the 225,000 tonne Asahan smelter in Indonesia for example, and all have a stake in seven foreign ventures.

Other regional interests are a 50 per cent stake in the Australian Boyne, which has 203,000 tonne capacity, and a 21 per cent stake in NZAS in New Zealand which produces 244,000 tonnes annually.

On the *American continent*, Japanese companies hold 49 per cent of the 320,000 Albras (Brazil) equity; 50 per cent of Canada's 90,000 tonne Alpac; 25 per cent of the US's Alumax; and 20 per cent of the 280,000 *tonne Venalm of Venezuela*.

Japan was bitten badly by the two oil shocks: both Boyne and Alumax are coal-powered, and the other five are hydro-powered.

Last year Japan picked up 43 per cent of its *primary* aluminium from these joint ventures. But there are no immediate plans to invest in other aluminium projects overseas — although China might be an exception.

The London Metal Exchange (LME) price per tonne for aluminium stood at $1,161 at the time of writing. Reliable *industry insiders reckon* that the production costs at the Asahan Indonesian operation alone are $1,300 to $1,400 per tonne.

Asahan came on stream in 1982, and is therefore a relatively new operation subject to the usual exigencies such as the need to pay off loans. But even when the production costs level *out it* is doubtful whether the aluminium price, in an over-supplied world, will have increased dramatically.

Overseas joint ownership programmes in aluminium simply are not as attractive as they once were. And unlike precious, strategic or rare metals, there are no cheap loans available from the government to make it *otherwise*.

Thirty-three per cent of Japanese aluminium imports last year were done under contract. But the industry has moved away from fixed price or formula-based contracts. Nowadays, prices are re-negotiated every quarter or half year.

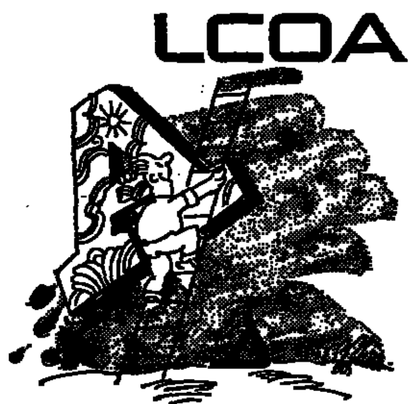
Japan caught 26 per cent of its imports on the spot market *last year, getting some good* deals for its high yen.

Although Japan imports more aluminium every year, it imports less from the US.

Australia has been the biggest gainer of the US losses.

For geo-political as well as economic reasons, Japan is looking increasingly to its Asian neighbours.

Lisa Martineau



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Aerospace

Lithium alloy yet to be exploited

ALUMINIUM lithium alloys, potentially the most interesting development in aluminium for aerospace, came of age two years ago, the 21st anniversary of the production of the first castings of the alloy. But industry is still waiting for applications of the alloy to become widespread.

The addition of lithium, the lightest metallic element, produces a material that is stronger than conventional aluminium alloys and lighter, but can be machined on exactly the same plant as alloys in current use.

Though it requires care to cast the ingots because lithium is reactive, the material offers potential savings of up to 15 per cent in the weight of an aircraft structure, savings that could lead to substantial changes in their design.

Applications of aluminium lithium have been slow to emerge. However, there are indications from the aerospace industry that it could become a routine material for production in the 1990s.

The aircraft industry studied in an uncommitted way the properties of aluminium lithium for several decades, since Pechiney, the French aluminium company, filed a patent relating to production of the alloy in 1958. The aircraft companies were nevertheless slow to change from the use of conventional aluminium alloys.

Most aircraft manufacturers have concentrated their development efforts on cutting manufacturing and aircraft operating costs; the latter through improvements in engines and in more aerodynamic shapes, especially for wings. The weight of aircraft structure was considered of less pressing importance while fuel was relatively cheap and new materials were expensive.

With the onset of higher oil and fuel prices in the 1970s, aircraft designers had much greater motivation to seek alternative, lighter materials for the structure of aircraft.

The growing availability of carbon fibre and epoxy resin composites accelerated with the rising price of fuel and aerospace companies tested these in larger and larger components. Aircraft flying today, especially military aircraft, but also including some of Boeing's long-range civil airliners, use composites quite extensively.

The wing centre section panels of the McDonnell Douglas F-15 Eagle are now made of aluminium lithium instead of conventional alloy

The composite materials have displaced conventional aluminium alloys for a number of structural components such as tailplanes, flaps and other relatively small areas. Some aircraft manufacturers have not stopped there. Beech, the US manufacturer of executive jet aircraft, has designed its new Starship I aircraft to be made largely of composite materials.

The writing could have been on the wall for aerospace as a regular, reliable outlet for conventional aluminium alloys. And the threat was sufficient for several of the larger aluminium companies to redouble their efforts to prove that aluminium lithium alloys, long known about, but not proven in production quantities, could be produced consistently to the high quality demanded by aircraft makers.

The pace of development is accelerating to make aluminium lithium suitable for regular shop floor use in the aerospace industry. So too is the competition between the large international producers of primary aluminium, who are working to provide the industry with large ingot and billet size samples of aluminium lithium of consistent quality. There are still memories in the aircraft industry of early samples which cracked in use.

Britain's TSR2 low-level strike aircraft, cancelled in the 1960s, was built partly of aluminium lithium, but little is known about how successful the application was.

Aircraft manufacturers in Britain, the US and France are in the forefront of aluminium lithium development. Each country has aircraft flying with quite extensive parts made of the alloy.

British Aerospace uses it on its EAP experimental aircraft programme technology demonstrator. The alloy is used on the so-called flaperons, the flat flap-like trailing edges to the aircraft's delta wings which act also as ailerons, controlling the aircraft.

BAe expects that aluminium lithium will play a part in the Eurofighter, the £20bn programme to build a common fighter aircraft for the UK, West Germany, Italy and Spain. Up to 800 Eurofighters are expected to be built for service in the early 1990s, providing a large market for the aluminium companies if they can succeed in producing aluminium lithium in large, high-quality quantities.

In France aluminium lithium is used on the Dassault Rafale experimental fighter aircraft.

McDonnell Douglas in the US has claimed a world first by installing "the first structural aircraft parts made from a new aluminium lithium alloy." These parts, large wing skins that provide a secondary structural role in the aircraft's design, flew recently on a McDonnell Douglas F-15 Eagle fighter.

The corporation says that the aluminium wing skins are 5 per cent stronger and 9 per cent lighter than the conventional aluminium parts they replace.

Mr Bill Brinks, programme manager for the McDonnell Aircraft F-15 short take-off and landing and manoeuvering demonstrator programme, says aluminium lithium is a "logical choice" for the modified F-15, which is designed to have unprecedented manoeuvring ability. "Any time you reduce the weight of an aircraft, everything related to performance improves and the added strength provides that important extra margin of safety."

Ingots of the alloy used by McDonnell Douglas contain 2.6 per cent lithium by weight or 16 per cent by volume. The ingots are produced by Alcan in the UK, one of the suppliers of aluminium for the F-15.

"In manufacturing the new aluminium lithium skins we used processes that are identical to the ones we use to produce standard aluminium parts," says Mr Steve Forness, a senior engineer at McDonnell Aircraft, the military aircraft production company in the McDonnell Douglas corporation.

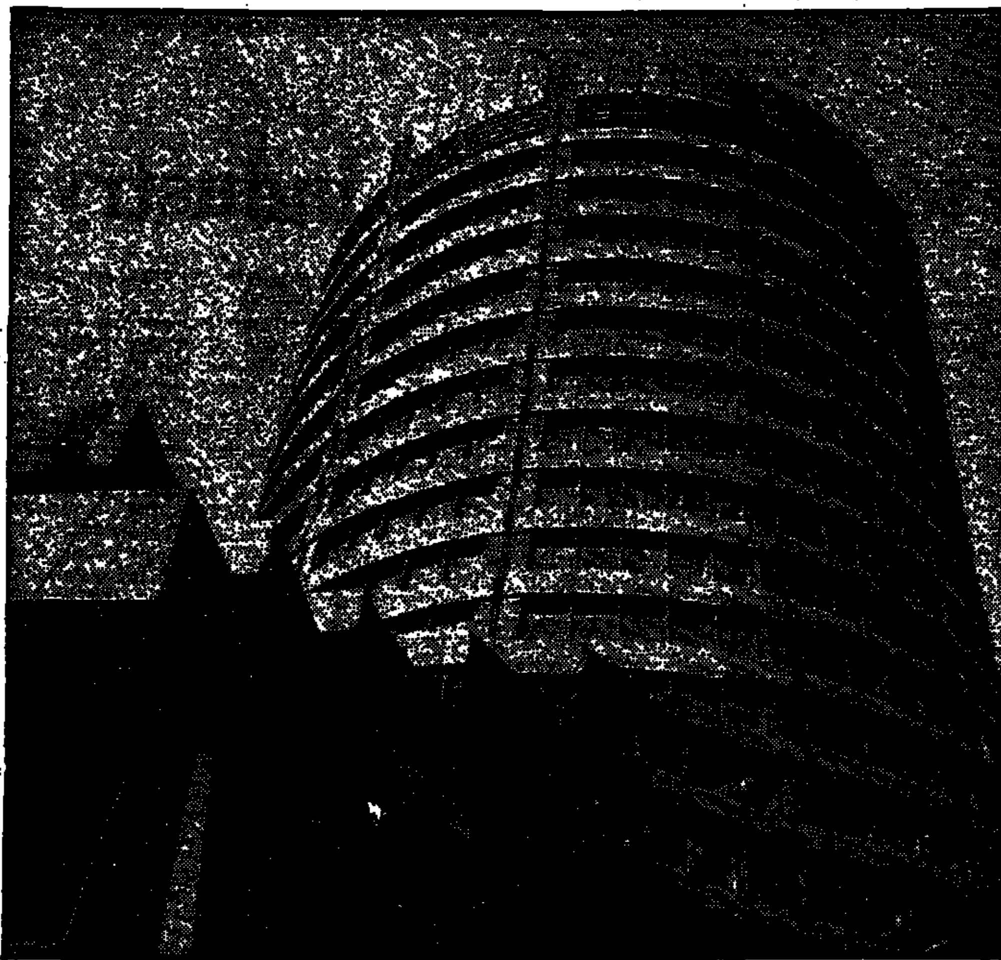
Conventional aluminium alloys account for 51 per cent, about 6,500 lbs, of the current F-15's total airframe weight, so there is considerable potential for substitutions of conventional alloys by aluminium lithium.

At Boeing, the world's largest manufacturer of civil airliners, aluminium lithium is being tested as the tow link by tractors to pull 747 Jumbo jets on the ground—which weigh 360 tonnes fully laden.

Boeing intends to start putting aluminium lithium on its projected 737 airliner to be built in 1990. The aircraft will be delivered to its first customers in 1992. Boeing says: "The structure would certainly have aluminium lithium in the fuselage, while the tail is to be of composite material."

Boeing claims that aluminium lithium offers an 8 per cent weight reduction for the same volume of conventional aluminium alloy. "Once the technology of aluminium lithium is proven," the company says "we will use it on our other aircraft," citing the lack of re-tooling needed for aluminium lithium as a "great advantage."

Lynton McLain



Façade using anodised and dyed aluminium on the building of the Bank for International Settlement of Payments in Basle, Switzerland

Construction

Wider uses in sight

A TALL housing block has for the past few months been raising eyebrows among travellers along London's Edgware Road. It has been changed from a typical ageing council high-rise — all weather-streaked charcoal-grey concrete and rotting window frames — into a sleek white tower with a contrasting bright red metal frame.

The secret — apart from the £2.4m spent by Westminster Council — is aluminium.

There is nothing new-fangled about aluminium as a construction material. The first applications followed quickly upon the Hall and Heroult patents.

In the US in particular the metal has long been used in a variety of industrial, commercial and farm buildings and as side panelling on domestic housing.

The fully-supported aluminium dome of the Church of San Gioacchino in Rome, built in 1897, is still in better condition than many a newer building.

Even aluminium's best friends will admit that the product has not been as successful in countering the problems of poor site practice as they would have liked. As a result, the best examples of aluminium in construction come from specialist companies which erect as well as supply.

On the other hand, examples do exist of modest structures which were carefully built and have lasted extremely well over the decades.

Building takes about 18 per cent of all wrought aluminium production in Europe. As well as true components, such as windows, cladding and frames, the total also includes construction equipment such as scaffolding.

Aluminium's advocates claim that it is fighting back against the huge and well-established use of steel in construction in readiness to take its place in large frame building.

The material is now used in a range of minor applications from rainwater gutters to handrails, doorknobs, venetian blinds, and foils for vapour barriers. But the spectacular potential is now being seen in the field of frames and curtain walling.

The challenge is to combine a full understanding of the physical properties of aluminium, taking its greater cost into account as well as its outstanding strength-to-weight ratio, and realise design ideas unique to it.

"I had come to consider aluminium because I was thinking immediately of potential performance per pound," wrote Buckminster Fuller, inventor of the geodesic dome, in 1945. Forty years later, Baco Contracts, a British Alcan company, would have made him proud.

Baco specialises in structures assembled of aluminium tubular members and patented Triodetic joints. The design potential of the various combinations offered is virtually limitless, as it makes possible not only domes, pyramids and other geometric shapes but also freeform structures such as hyperbolic paraboloids.

The members and joints are combined to form two-way double-layer flat space frame grids with clear spans up to 40 m Barrels vaults can go up to 50 m (as in the recently-completed Ealing shopping centre), which is also the maximum diameter for domes and the clear span for pyramids.

Giant domes have been built by Baco in Selangor, Malaysia, and in Khartoum, while at home it has created the glazed pyramid over the Dolphin Leisure Centre in Romford.

At the border station on the Saudi-Bahrain Causeway it has covered an area of nearly 14,000 sq m with 16 Triodetic sunshades: a latter-day oasis in one of the hottest deserts.

The continuing popularity of curtain walling and large atria in commercial buildings is another boon to aluminium which has now got over the problems of the 1950s, which resulted in a series of adventurous-looking structures which turned out to be glorified leaky hothouses. Improvements in glass and jointing methods have now largely solved both problems.

Curtain walling, both the standard off-the-shelf quality and the prestige bespoke systems used at the NatWest Tower and Heathrow Terminal 4 (currently estimated to be worth about £200 a year) is now threatened not by its own technical shortcomings but rather by the new architectural trends, mainly post-modernism.

Glazed roofs and atria are more secure, as they now appear in post-modern designs as well, but that market is worth "only" about £5m a year.

Meanwhile, another major market for aluminium, rainscreen overcladding, is emerging, already estimated by the Construction Industry Research and Information Association (CIRIA) to have a potential value of £250m a year, subject — unfortunately — to the empty purses of local councils who own most of the buildings which are in need of it.

"The system is on the lines of tile hanging: screening the rain but not trying to keep it out altogether," says architect Peter Bell, who has convinced Westminster Council that a total recladding of its tower blocks would be more cost effective in the long term than *just repairing the concrete and* replacing the windows.

Mira Bar-Hillel

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Its clean and lightweight qualities, allied to good sealing properties, make it a universal material for many applications, and forming 18 to 20 per cent of the end-use of all the aluminium that is produced.

The advent of plastics in the past decade or so seems hardly to diminish the uses to which aluminium can be put in packaging and there seems every reason for this to continue.

Not least of its virtues is that a little goes a long way. Rolled out by the mills into sheet that demands a new definition of the phrase wafer-thin, aluminium foil is often a crucial part of the package even where it forms only a small proporuon by weight or size.

But in the highly-competitive world of packaging, where aluminium is ranged alongside the plastic bottle, the cardboard box and even the paper bag, new applications are being found.

In the area of flexible packaging, it is making significant inroads, particularly when it is combined with other materials to provide a laminate. Its good barrier properties in stopping gases, liquids or ultra violet light from getting in or out have made aluminium foil a favoured material for pouches, sachets and lids for plastic containers.

Aluminium is now being used by Cadburys on the inside of its milk powder containers, with cardboard on the outside to give rigidity.

Laminate's share of the collapsible tube market, mostly for toothpaste, has been rapidly increasing since 1982, reducing its price and so accelerating the move away from all aluminium tubes.

Foil is now widely used for trays, whether for frozen apple pies, Chinese take-aways, or for meals cooked centrally, then distributed to schools, hospitals, pubs or hotels. However, PET plastic trays have an advantage over aluminium foil since when used in a microwave oven they do not arc like aluminium, though they are currently relatively expensive, with new moulds costing between £20,000 and £40,000.

With aluminium likely to suffer from the decline in the cigarette industry, where foil is heavily used, what does the future hold for it as a packaging material?

The most promising market is likely to be "composite cans," with foil/board containers already being used for the packaging of such products as motor oil and drinks. Further inroads are expected into the beverage sector, with moves also being made to take advantage of its good barrier characteristics for the pharmaceutical industry.

Such extensive use of the metal is being followed up by an increasing number of schemes to re-cycle it when the packaging has been used — a valuable re-use. The energy needed to produce recycled aluminium is only 5 per cent of that required to make new metal.

In the US, where 92 per cent of the beverage can market uses aluminium, the recycling rate now exceeds 50 per cent, and the recycling exercise is economic and self-supporting.

In the UK, aluminium shares the can market half and half with tinplate, which has virtually no recyclable value. Should recycling take off, that is likely to be a significant factor in aluminium's favour with its scrap value estimated at around £500 per tonne.

There are already some 100 can banks in the UK set up by 46 local authorities, both aluminium and tinplate cans being collected, though the general public receives no payment. In the pilot schemes, customers in shops are being invited to place their used cans in a reverse vending machine which crushes them into a manageable size for collection and re-use at foundries and gives a token in return. This can then be cashed at the check-out.

If recycling does catch on in a big way, the rewards for the aluminium industry, which is sponsoring the trials, could be substantial. It would reinforce the arguments in favour of the metal as a material for the drinks industry, with its share already reputed to be increasing by 20 per cent a year.

Aluminium foil provides the seal on these bottles of sauce

The environmental arguments that are persuading European governments to examine more carefully the case for recycling, may also count against the use of plastic containers for the beverage market.

Plastic has the additional disadvantage of not being good at holding gas in the container, though Coca-Cola has a plastic can on trial in the US, which provides good barrier properties and is capable of withstanding the high internal pressures associated with carbonated drinks.

Alastair Guild

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Local drive spurs world network

Profile: Aalco

"WHAT IS the use of having a wonderful metal like aluminium if customers cannot *get hold of it?*," *is* the question posed by the marketing manager of one firm of stockists.

Over the past three decades, stockholders, with their *networks of* warehouses, both in the UK and overseas, have answered the call. While total sales in the metal have at least tripled since 1956, stockholders have more than kept pace with the increase, now having almost one-third of the entire UK market of 450,000 tonnes.

They have achieved this, believes David Taylor, former chairman of the Aluminium Stockholders Association and *deputy managing director of* Aalco, by consolidating their position in the volume end of the market, counterbalanced by a continued interest in the small quantity business. This has led to a rapid growth of the more established companies many of whom have expanded geographically, and branched out also into other metals.

Aalco, second only to British Alcan as a stockholder, *and last year accounting for* 15 per cent of stockists' sales of aluminium, itself mirrors this path. The holding company, Amari, dates from the earlier part of the century when it was essentially a mining operation. By the 1960s, however, it had almost ceased to trade.

People from outside the company, wanting to start a stockholding business bought Amari shares, quoted at 1½d pre-decimal and set up half a *dozen branches* throughout the UK, two of them acquisitions and four started from scratch. By the end of the decade it had nine.

In the 1970s, it continued *with its* geographical expansion, building up to 20 UK branches, and started to add other metals, such as stainless steel and copper alloys. "Stockholding is an entrepreneurial business, but we couldn't satisfy the natural growth expectations of people in the company by sticking to aluminium alone," David Taylor says.

In 1974, the company was acquired by mining investment *group Selection Trust.* "We were extremely contented being part of Selection Trust. It allowed us to develop the business according to our own ideas."

But in 1980, Selection Trust was itself bought by BP for £420m. BP was *seeking* to become more of a resource company, and Amari, David Taylor believes, did not fit neatly into its plans. In 1983, BP was persuaded to sell Amari to its employees. The company was bought for £5m, with employees putting up £1m, the remainder being met by 3i, County Bank, West Midlands County Council Pension Fund and Moracrest Finance, part of Midland Bank.

In July 1984, Amari returned to the Stock Exchange listings after an absence of 10 years. It has since continued with the expansion of its overseas stockholding operations. Aalco already had two small stockists in Germany and Holland, and in 1980 acquired a one-branch Canadian concern mainly involved in aluminium stockholding.

It has added two branches, in Montreal and Calgary and a range of metals comparable with that it now offers in the UK.

Earlier this year, it acquired its first foothold in the US, by buying out Ontario Metal Supplies, with four branches, later purchasing 35 per cent of the equity in another stockholder, All-American Metals, consolidating its position in the German markets by starting companies in Dusseldorf and Stuttgart.

The company's international spread has enabled it to take advantage of beneficial exchange rates and broaden purchasing opportunities, though it always sources from at least one UK supplier.

The network of 28 branches in the UK, employing some 600, has *enabled* Aalco to cater for both the very large company, spending anything up to £1m, to the customer buying a few pounds-worth of metal, David Taylor believes, with each centre gearing its stock to match the needs of industry, be it in Aberdeen, Hull, Uxbridge or South Wales. Aalco has a total of 15,000 customers in the UK. As with other stockists, these tend not to include high volume purchasers for packaging, foil or lithographic sheets who buy their rolled metals from mills direct.

Each branch, although a fully-owned subsidiary of Aalco, is a separate operating company, trading within its own defined territory and with its own board of directors. "This gives local management teams more motivation and maximises market penetration," David Taylor says.

If overdraft limits are exceeded because, for example, a company has failed to collect money owing, a penalty is imposed on the net profit of that company, a form of control that hits the pockets of managers and senior sales staff who are members of profit-sharing schemes.

Each branch offers local processing services, such as bar cutting, guillotining and protective *masking on* a *range of* metals.

In the future, expansion will come from further activity overseas and more added value products in the UK, such as profiling as well as increasing its recent new investment in selling a range of metals to the aerospace industry.

Alastair Guild

Welder working on the body shell of a subway car for the Paris Metro. Developed by Alusuisse, the body is built up using aluminium extrusions

Top name falls on hard times

Profile: Alusuisse

"THE ALUSUISSE group will no longer figure among the world's biggest producers of primary aluminium." With this blunt statement Dr Hans Jucker, chief executive officer of the parent company Swiss Aluminium, set the scene last month for a radical restructuring of what has always been one of the top names in the international light-metal industry.

There is some argument as to whether it was the forerunner of Alusuisse, or the forerunner of Alcoa which opened the first commercial aluminium smelter. Whatever the case, both plants went into operation in 1888 and formed the basis for industrial empires.

However, with its centenary just around the corner, Alusuisse has fallen on hard times. After years of profitability the group dived into the red in the three-year period 1981-83 with combined losses of SFr 813m.

Increased demand and a long-term re-organisation programme led to a return to profits in 1984, with group net earnings of SFr 168.7m, and a resumption of dividend payments. Last year, however, things were worse than ever, with consolidated losses of no less than SFr 692m. Primary metal capacity stood at 808,000 tonnes annually.

By 1985 Alusuisse had already come some way in reducing its reliance on aluminium. Total aluminium division turnover — bauxite, alumina, raw metal, semi-finished products—amounted to only 63 per cent of the SFr 8bn sales figure, most of the rest coming from the chemicals sector and the American automotive-parts manufacturer Maremont. Despite this, the crisis in the aluminium industry was the reason behind the 1985 disaster.

It was not only the near-collapse in the metal price, which reached a low of 42 cents/lb last November, which hurt Alusuisse. Management was also at fault, having acted too cautiously and too late in the hopes that the market would show an upturn.

With first reports of massive losses and depreciation requirements during 1985, there was a dramatic management shake-up in January, with Emanuel R. Meyer, the long-standing chairman, and Dr Bruno Sorato, the chief executive, both handing in their resignations.

Dr Jucker, formerly head of the profitable Lonza chemicals subsidiary has few illusions about the immediate opportunities for primary aluminium. "The world price is in the cellar and there are no signs of a change," he said in Zurich recently, adding that the weakness of the dollar was also hurting Alusuisse; with the Comex price up by some 10 US cents since last November, the equivalent in Swiss francs had actually fallen 13 centimes by mid-October, 1986.

Despite earlier re-structuring plans and the changing of the guard in January, 1986 will again close with what the latest shareholders' letter describes as a substantial loss. Indeed, given the price and exchange-rate situation plus world over-capacity in the smelter sector, continued re-organisation costs and a huge corporate debt, Dr Jucker says it will be about another three years before Alusuisse returns to profitability.

By that time the group will already have reduced its smelter capacity considerably. Consolidated Aluminium, the US light-metals subsidiary, recently announced the divestment of its majority stake in Ormet, which operates a loss and strike-ridden smelter on the Ohio River, and is to close the final potline of the New Johnsonville plant in Tennessee, once the subject of sanguine hopes.

In Europe, smelter capacity at the Historich Chippis smelter in Switzerland is to be halved by next year, while negotiations are "coming on well" for the sale of a 50 per cent shareholding in the Italian producer SAVA; late last month it was further decided to cut back capacity at the Aluminium-Hütte Rheinfelden in Germany from 60,000 to 40,000 tonnes next year.

All this will mean a virtual halving of smelter capacity to around 400,000 annual tonnes by the end of 1987. This reduced figure will then be cut by a further 30 per cent by the end of the decade.

Divestments are not limited to the aluminium division, however. Maremont, for example, was recently sold "at considerably above book value" for $245m, following the sale of the New York civil-engineering firm Heyward-Robinson in January.

By 1989, the Alusuisse group will be considerably slimmer, with turnover of something like SWFr 5bn, as compared with the 1984 high of SwFr 8.35bn. It should, however, be a much more lucrative operation, based as it will be on "strategically relevant activities in the aluminium and chemical sectors."

While there is no intention to quit the raw-material business, the emphasis will be increasingly on products or semi-finished work with high added value.

Alusuisse will remain an integrated aluminium producer. There are no intentions, for example, to get out of the large bauxite-mining and alumina project at Gove in Australia. Smelting activities will continue though at the reduced level, while anode production is seen as a "strong pillar" of the division.

In the fabricating sector, a number of new investments are current or anticipated.

Two former targets have disappeared. For years Mr Meyer had talked of his "50-50 programme," which he indicated should be attained by centenary year 1988. This meant that half of all group turnover should come from the US and half from elsewhere; also, the turnover breakdown was to have approximated half each for aluminium and other products.

Neither of these goals now has any relevance, particularly in the light of the Maremont divestment. In future, Alusuisse will play it by ear. Doubtless the chemical sector will develop faster than light metals—but aluminium in one form or another is far from being on its way out.

John Wicks

Extrusions, produced by forcing heated billets through a steel die, can be produced in an infinite variety of complex shapes to suit particular applications, from aircraft parts to electronic heat sinks and domestic appliances

Engineering

Education in applications

ALUMINIUM HAS still to make its full presence felt in the engineering industry, though it is seen increasingly as an alternative to other metals such as steel.

A survey for the Aluminium Federation showed that six years ago some 45 per cent of *companies in engineering* were using the metal. By 1984, aluminium had improved its showing by some 7 per cent. The Federation chose to put an optimistic interpretation on the figures.

Its major advantages over other metals are long established. But it is recognised that the industry still has a major education job on its hands to overcome the resistance to *aluminium's higher initial cost.*

In engineering, as in other applications, these advantages are its lightness, its high strength-to-weight ratio, its weldability, an attractive appearance, durability, and corrosion resistance to most chemicals. Aluminium is also a good heat and electrical conductor and is non-magnetic.

The industry is now working with designers throughout the engineering industry to improve the understanding of aluminium. Changes to the approach to design will be necessary to take full advantage of aluminium's properties, for example, its low elastic modulus. Because *of its* greater flexibility, structures can be made thinner, lighter and longer than they would by using say steel.

The Aluminium Federation for the past three years has been *running* a design competition as part of this education process. Alexal 87 invites students and qualified engineers to come up with ingenious and cost-saving ways of using aluminium extrusions.

That said, aluminium is already being used in range of applications, from casing for meteorological recording and air traffic control equipment and computers, to tanks holding liquid methane. There aluminium's low temperature characteristics are the main factor, with the metal's strength improving at low temperatures, whereas steel becomes brittle when its temperature falls.

The development of aluminium alloys over the past 30 years has given it a strength approaching that of steel. In general engineering, these are mainly medium strength magnesium and silicon alloys, used in aluminium extrusions. For sheet and plate aluminium products, manganese and magnesium are typical, though higher strength, and more expensive, alloys using copper, zinc and more recently lithium, have applications, particularly in defence.

At the same time, there have also been significant advances in anodising techniques to give the metal a more attractive appearance, particularly applicable in the domestic market for window frames. The industry is now working on anodising techniques which will give an even greater range of colours.

But some of the most significant advances in recent years have been in improvements to techniques of joining aluminium to other materials. The *first applications* of adhesive bonding took place 20 years ago, but only now is interest spreading beyond the aerospace industry. British Leyland, for example, has developed a prototype car which *makes* use of adhesive bonding.

"Only now are we getting sufficiently confident to apply it in general engineering," says Mr Colin Bowater, general manager, applications, design and development at British Alcan Aluminium. "This concept vehicle is a test of the bonding technique. The critical part is the preparation of the aluminium so that the adhesive sticks to it."

Much research has also been conducted over the past five years into welding. This work is now producing results, with the latest Ford Escort and Orion models using such techniques in their car radiators made of aluminium sheet, foil and extrusions. However, the welding of aluminium requires specialist inert gas methods to prevent oxygen recombining with the surface layer of oxide.

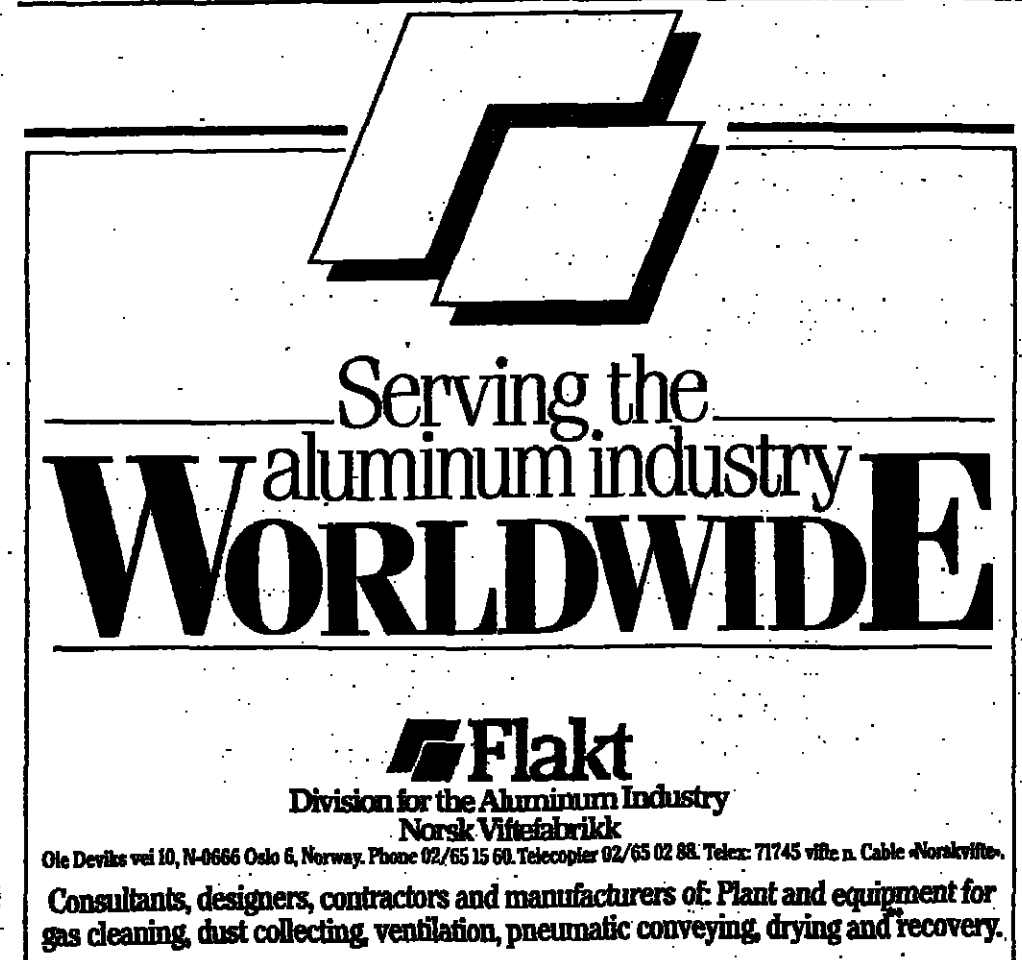
The industry is also working increasingly on the development of composites, of aluminium and other metal and plastic, giving the combined material a better performance than the two materials used separately.

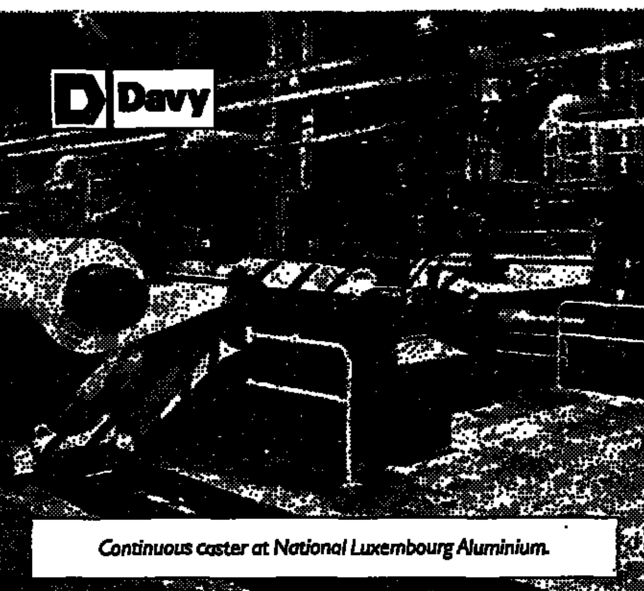
The composite, being used on a conductor rail for train coaches on the Continent and in the Far East, exhibits the hard-wearing characteristics of steel, at the same time employing the conductivity advantages of aluminium.

However, the demand for extrusions provides perhaps aluminium's greatest potential for growth, with sales of such products to the general engineering industry increasing by about 5 per cent each year. *Motor manufacturers such* as Audi are already using the metal for production door frames. The replacement for the Ford Transit has a window frame using aluminium, while Jaguar has used the metal for its bumpers.

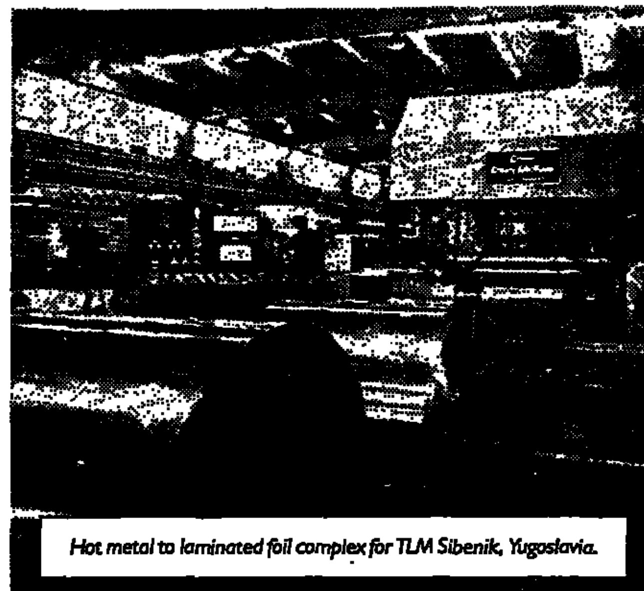
It is estimated that some 20 per cent of the UK's 2,600 fully-fledged robots employ aluminium extrusions, either for the robot arm or for the frame housing all the workings. They are popular because of their lightness and strength, the low tooling costs and, as most robots are built in small batches, aluminium extrusions can be used to produce a frame or arm cost-effectively.

Alistair Guild

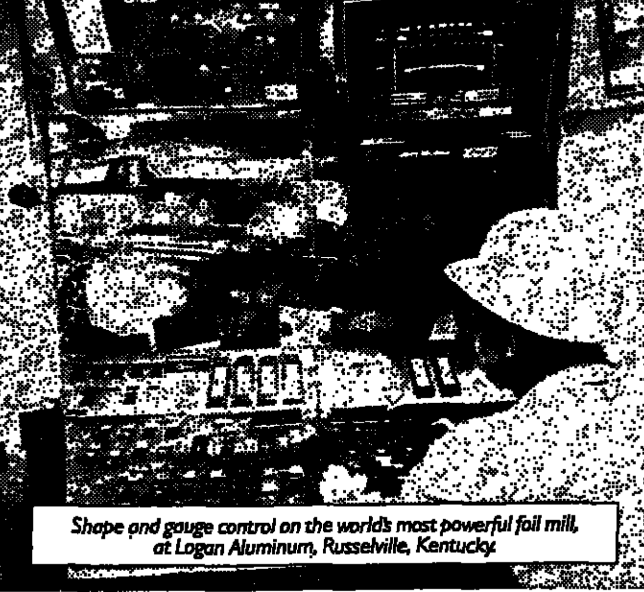




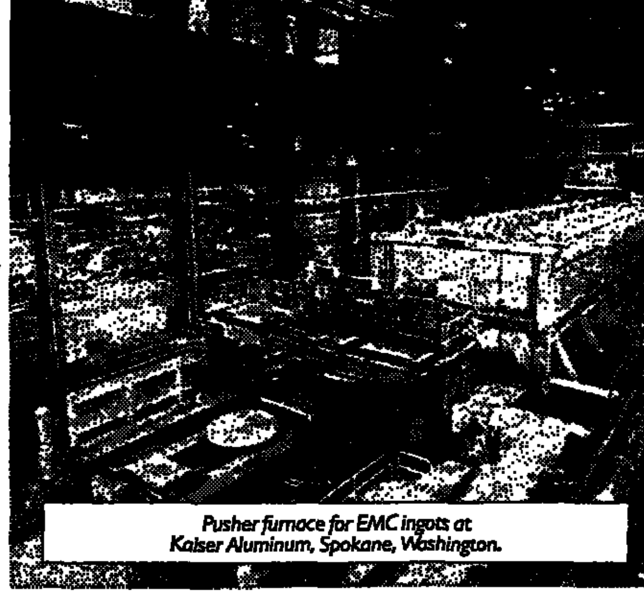
Continuous caster at National Luxembourg Aluminium.



Hot metal to laminated foil complex for TLM Sibenik, Yugoslavia.



Shape and gauge control on the world's most powerful foil mill, at Logan Aluminum, Russellville, Kentucky.



Pusher furnace for EMC ingots at Kaiser Aluminum, Spokane, Washington.

Cold rolling mill at the Alumax constock plant recently commissioned in Texarkana, Texas.

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UK COMPANY NEWS

Nick Bunker profiles the man leading the bid for C E Heath

Ben-Zur goes on the warpath

MILITARY METAPHORS come readily to the lips of Mr Raanan Gedaliah Ben-Zur, chief executive of PWS Holdings, the middleweight Lloyd's insurance broker. His words were warlike last week when he launched an audacious—some say opportunistic—£180m bid for C. E. Heath, one of the UK's foremost quoted insurance broking groups.

"Heath has too many troops and not enough officers," he said. Mr Ronnie Ben-Zur's tactic is to point to Heath's recent troubles—especially the defection of key North American broking staff—and blame them on poor leadership and consequent low morale.

Yet his martial language is doubly appropriate. At the age of 19, Mr Ben-Zur was an artilleryman in the Israeli Army during the 1973 Yom Kippur War. Now, at 32, he is applying for British citizenship. But he has regularly returned to Israel for spells as a military reservist. ("It's not obligatory—it's just something I felt I should do," he says.)

Mr Ronnie Ben-Zur, chief executive of PWS

Such personal details may yield no hard evidence of Mr Ben-Zur's potential merits as manager of a combined PWS and C. E. Heath (it would rank in income as the sixth biggest quoted UK broker). But observers have little more than that to go on.

So swiftly has Mr Ben-Zur built his modest empire by acquisitions—and by exploiting difficulties in the world's reinsurance market—that analysts have had a tough time interpreting his figures.

Only six month ago, the present PWS Holdings arose from a merger between Mr Ben-Zur's Howard Group and PWS International, a quoted Lloyd's broker with estimated 1985-86 pre-tax profits of £1.7m. PWS has forecast pre-tax profits of £8.3m for the year ended September 30—but analysts have already noted that £1.5m of the group's estimated £15.5m brokerage income comes from a post-merger change in accounting policy.

In turn, PWS focus on specialised reinsurance broking looks to some to be too flimsy a springboard for managing a diversified group like Heath.

The difficulty of assessing the figures has focused attention on the man himself. He is variously described as enigmatic, fascinating, ruthless, charming, an extremely able manager—or just a young financial deal-maker, skilled in presentation, but in rather too much of a hurry.

Mr Ben-Zur has hinted at the merits of an untainted outsider ready to take a firm managerial grip of Heath. "To be a broker you need a special kind of character—but those kind of people are not always good managers," he said.

A business and economics graduate of the Hebrew University of Jerusalem, he actually gained his early experience with a family insurance broking business in Israel.

His father—whose picture hangs in Mr Ben-Zur's office in the Minories—founded a London broker in 1956. When he died in 1974, Mr Ronnie Ben-Zur's mother—by all accounts a formidable woman—began running the business. Mr Ben-Zur became managing director of Ben-Zur (London) in 1980, was duly shocked by the 1982 Lloyd's scandals and then embarked on acquisitions.

Some, he concedes, have looked opportunistic—but he stresses that "opportunism should not be a bad word," adding that they show long-term strategic thinking and a determination to buy cheaply.

First, he wanted a Lloyd's broker — so he formed the Howard Group by buying Hoveringham Howard in 1982. The company had "a severe case of the flu," according to Mr Ben-Zur, who says he had to clean it up, adding to it the old Ben-Zur core business of broking Israeli petrochemical reinsurance in London.

In 1984, he bought Anthony Popple, another Lloyd's broker, adding £1.5m brokerage income to his existing £1.2m. It was "a good company that lacked management on the financial side," Mr Ben-Zur says. It brought with it North American casualty insurance broking business — including a binding authority to write US product liability insurance for Lloyd's underwriters.

That gave Mr Ben-Zur another window of opportunity. He rapidly picked up contracts to broke difficult US business at Lloyd's like liability insurance for medical practitioners, or public officials, at a time of steeply rising premium rates and tight underwriting capacity. The Howard Group boosted pre-tax profits by 7½ per cent in the six months before the PWS merger.

PWS appealed, said Mr Ben-Zur, because "it had quality people, but the ship was a bit sleepy." Since the merger, 60 out of 370 staff — mainly back-office — have been made redundant.

By then, Mr Ben-Zur was already contemplating bids for more broking groups (Minet Holdings was a possible target, he says — but he felt there was no value he could add). What prompted the Heath bid was not Heath's current merger talks with Fielding Insurance, a Hambro subsidiary, says Mr Ben-Zur — but this summer's defection of Heath staff to rival broker Stewart Wrightson.

Lilley gets continued support from banks

By Nikki Tait

A CONSORTIUM of banks—led by the Clydesdale and including the Midland—has agreed to offer continued support for F. J. C. Lilley, the troubled Glasgow-based civil engineering company which announced substantial first-half losses last Friday.

A formal statement is expected later today after which Lilley shares — suspended on Friday at 24p — are likely to resume trading.

Lilley's problems have arisen in the US, where certain heavy construction contracts have resulted in losses of £15m during the six months to end-July, plus provision for further losses of £13m. The UK has continued to trade profitably, producing profits of £3.5m, with the result that the total group loss for the first half has run out at £24.48m — against a £4.68m profit last time.

However, a statement from the company late on Friday night, said that the provisions made in these results would fully account for the losses expected on the contracts up to completion.

Lilley now expects to make a profit during the current six months, and to recover certain monies from the settlement of claims and disputed items for which it is currently providing, in 1987.

Lilley has been increasing its US workload substantially in recent years. Turnover there reached £143m in 1985-86, compared with £59.3m two years earlier and was only £44m short of the UK total.

F.T. Share Information

The following securities have been added to the Share Information Service:

Creighton Laboratories (Section: Industrials).
Dura Mill (Textiles).
India Fund (Investment Trusts).
Nationwide Building Society 3¼ per cent Index-Linked Loan 2021 and 10⅛ per cent 21/9/87 (Loans—Building Societies).
North of Scotland Investment Company (Investment Trusts).
United Biscuits Warrants (1991) (Foods).
Yorkshire Television (Leisure).

Photax falls in the red at six months

A DIFFICULT market and severe foreign exchange fluctuations were blamed by Photax (London) for its first half loss of £161,000, compared with a £47,000 profit last time.

Sales fell from £2.88m to £2.58m in the six months to end-June 1986, and after no tax (£14,000), losses per share came out at 9.49p against earnings of 0.27p. There is again no dividend payment.

Photax, which makes and imports photographic equipment, was hit by the new ranges of compact cameras, which took a bigger share ofthe market in the period than ever before. Such cameras do not need the wide range of accessories, for so long a significant part of the company's business.

Sales were also affected by the poor spring and early summer weather as well as a more cautious approach by dealers and high strees stores over their stock levels, directors said.

Most ofthe company's purchases are made in Deutsche Marks and yen, and the weakness of sterling against these currencies had a significant effect on gross margins. A substantial proportion ofthe loss related to the failure to cover those foreign exchange commitments. That situation had now been corrected, the directors stated.

They expected that some of the difficulties of the first half would continue throughout the year although actions to increase sales, reduce costs, improve operating efficiencies and cover against the wilder fluctuations ofthe major currencies were expected to have some positive effect on second half results. Second half profits in 1985 were £63,000 (£10,000 loss).

In the longer term the company should benefit from the upturn already apparent in sales of single lens reflex cameras and from new product groups coming on stream. The directors expected these developments would go a long way towards making up the year's lost turnover and gross profit margins.

Mr David Harris resigned from the board on October 17, and Mr Leslie Dunn, equity chairman, has resumed his former position of managing director.

BIDS AND DEALS IN BRIEF

ELBAR Industrial—offer from TI Securities has been received in respect of 4.48m shares or 97.98 per cent and has accordingly been declared unconditional.

CHAMBERLAIN PHIPPS has acquired M and B Transport of Northampton for £450,000 to be satisfied as to the allotment of 535,715 Chamberlain ordinary having a market value of £350,000, the remaining £100,000 being deferred over a period of two years and contingent on the attainment of certain profit objectives.

PACIFIC Investment Trust's directors have announced that H.M. Treasury has consented to company becoming non-resident for tax purposes. Board is now making arrangements to convert company into an open-ended investment company in Luxembourg following which shareholders will be able to redeem their shares at a price close to net asset value. The position of warrant holders will be appropriately protected.

SPECTROS INTERNATIONAL, a group of companies concerned with the development, manufacture and sale of analytical instruments, is to acquire IBT Dubilier's surface analysis business. As part of the agreement, Spectros has acquired exclusive rights to the use in surface analysis instrumentation of certain IBT Dubilier patents in liquid metal ion sources and ion optical systems.

KENNEDY BROOKES has agreed to purchase Rothley Court Hotel from Hap Hotels for a consideration of £1.6m which has been met by the issue of 470,754 ordinary shares in Kennedy Brookes.

SUTER has increased its interest in Thermax to 2,795,000 ordinary shares (24.02 per cent).

Barker & Dobson plan gets cool reception

By Nikki Tait

ONLY about 12 per cent of the small shareholders in Barker & Dobson, the confectionery company, have taken up the group's offer to pay their dealing costs if they sell out.

The offer — which closes tomorrow — was made earlier this month in an attempt to cut the costs of servicing the group's 32,000-strong share register. Of the total number of shareholders, two-thirds hold under 5,000 shares, and one-third have less than 1,000.

Three weeks ago, the company — under the new management of former Asda managing director, John Fletcher — said it would pay all dealing costs if these small shareholders agreed to part with their holdings. By Friday, however, only 2,500 shareholders — speaking for 3m shares — had done so.

In August, a £70m rights issue by Barker & Dobson to finance its purchase of Budgen, the supermarket chain, was taken up in respect of only 62.4 per cent of the shares. Although institutional support was said to be strong, small shareholders are believed to have cold-shouldered the issue.

Stanley Miller back to profit at interim stage

Stanley Miller, the building contractor, achieved pre-tax profits of £80,422 in the half year to June 30 1986 after recording a loss of £56,116 last time.

Interim figures last year had been hampered by a share loss of £103,870 by an associated company and the payment of an extraordinary item of £339,218.

Turnover was down from £12.1m to £11.5m.

Profit attributable to shareholders came to £80,422 after last time's attributable loss of £395,334. Earnings per share worked through at 1.34p (0.93p loss). The interim stayed at 0.5p.

SHARE STAKES

Changes in company share stakes announced over the past week include:

Lyle Shipping — R. Fields purchased 100,000 shares and holds 600,000 (over 5 per cent).

Hollis — Director I. R. Maxwell acquired 730,000 ordinary at 83p.

G. M. Firth — directors have exercised their options as follows—I. H. Wasserman 140,000; M. A. Butler 105,000; M. Bell 100,000. These shares were sold except 3,500 retained by Mr Butler.

Campari International—Director H. H. Lipton has acquired 105,000 shares at 60p and 25,000 at 64p.

Alexandra Workwear—Director J. M. Prior acquired 12,500 ordinary and holds 407,500 (3.7 per cent), and J. E. Drinkwater, also a director, disposed of 12,500 ordinary and holds 87,500 (0.8 per cent).

Horace Cory — Director P. L. Kohnstamm purchased 175,359 ordinary at 21p. H. Kohnstamm and Co has sold a further 100,000 ordinary at 21p. P. L. Kohnstamm remains interested in 2.99m shares beneficially and 1.69m non-beneficially (25 per cent). K. Riley has purchased 950,000 ordinary (more than 5 per cent).

Alexon Group — Director P. Wiegand sold 45,000 ordinary.

Polymark International — Director L. J. Weager sold 50,000 ordinary.

Rockware — director F. H. Poole purchased 125,000 ordinary.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Value and Income Trust, Vanburgh Currency Fund, Viking Resources Trust, Waverley Cameron.

Finals:—Allied London Properties, Burgess Products, Klark-Teknik.

FUTURE DATES

Interims—

Company	Date
Askins Brokers (Hosiery)	Dec 2
Boosey and Hawkes	Oct 31
CASE	Nov 7
Goldberg (A.)	Nov 7
Henderson Group	Oct 29
King and Shaxson	Nov 10
Lance	Nov 4
Lep	Oct 30
Nimslo International	Oct 30
Oxford Instruments	Nov 3
Shiloh	Nov 5
Smallbone	†Oct 28
Storehouse	Nov 13
TR Property Investment Trust	Nov 26
Valor	Nov 13
W.A.	Nov 3
Wilson Investment	Nov 20

Finals—

Company	Date
Cooper (Frederick)	Nov 5
LWT	Nov 13
Manchester Ship Canal	†Feb 9

†Amended

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Company	Date	Announcement last year
ANZ	Nov 18	Final 16 cents
AB Foods	Nov 4	Interim 1.9
*Allied Irish Banks	Nov 12	Interim 4.5
*Amersham International	Nov 10	Interim 2.42
*Avana	Nov 19	Interim 6.0
*BPB Inds	Nov 28	Interim 3.6
Bassett	Nov 28	Interim 1.76
Boots	Nov 21	Interim 2.5
British Car Auction	Oct 29	Final 2.0
Burton	Nov 21	Final 8.3
*Cable and Wireless	Nov 20	Interim 3.8
*Cater Allen	Oct 31	Interim 8.25
Courtaulds	Nov 19	Interim 1.75
Dawson Intl	Nov 28	Interim 1.7
*De La Rue	Nov 11	Interim 6.25
*EMAP	Nov 25	Interim 1.2
*Eastern Produce	Oct 31	Interim 2.6
Elliott (B.)	Nov 21	Interim 1.0
Etam	Oct 23	Interim 1.5
Excal	Nov 21	Interim 2.0
Fenner (J. H.)	Nov 26	Final 3.0
GEI Intl	Nov 12	Interim 1.94
Great Portland Estates	Nov 12	Interim 2.0
Heath (C. E.)	Nov 19	Interim 7.0
Helical Bar	Nov 28	Interim 2.0
Hepworth (J.)	Nov 5	Final due
Hill Samuel	Nov 8	Interim 3.8
Johnson Matthey	Nov 27	Interim 0.5
Kwik Save	Nov 22	Final 3.4
*LWT	Nov 13	Final 9.222
Land Sec	Nov 13	Interim 2.8
London Intl	Nov 19	Interim 1.5
*MEPC	Nov 28	Final 8.0
*Marks and Spencer	Oct 28	Interim due
Metal Box	Nov 18	Interim 6.1
*Powell Duffryn	Nov 21	Interim 4.5
*Redland	Oct 30	Interim 3.532
Rothmans	Nov 26	Interim due
Royal Bank Scotland	Nov 28	Final 8.0
Sainsbury (J.)	Nov 5	Interim 1.4
*600 Group	Dec 2	Interim 2.24
*Smiths Inds	Nov 12	Interim 4.7
Sketchley	Nov 18	Final 3.0
Staveley Inds	Nov 14	Interim 5.5
*Storehouse	Nov 13	Interim 1.4
*Tesco	Oct 29	Interim 2.1
*Unigate	Nov 24	Interim 3.46
Valor	Nov 13	Interim 1.369
Whitbread	Nov 10	Interim 2.25
*Wolseley	Oct 28	Final 8.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

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For further information call Mike Anthony at 01 638 5757 or write to him at Henderson Pension Fund Management Ltd. 26 Finsbury Square, London EC2A 1DA.

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U.S. $100,000,000

National Westminster Finance B.V.

(Incorporated in The Netherlands with limited liability)

Guaranteed Floating Rate Capital Notes 1992

Convertible until 1986 into 10 per cent. Guaranteed Capital Bonds 1992

In accordance with the provisions of the Notes, notice is hereby given that for the six months interest period from 27 October, 1986 to 27 April, 1987 the Notes will carry an interest Rate of 6¼% per annum. The interest payable on the relevant interest payment date, 27 April, 1987 against Coupon No. 13 will be U.S.$157.99. The Conversion Interest Amount applicable to Notes which have been presented for conversion will be U.S.$5.56 per U.S.$5,000 Note and this will be payable on 31 October, 1986.

By The Chase Manhattan Bank, N.A., London Agent Bank

NOTICE TO THE HOLDERS OF WARRANTS TO SUBSCRIBE FOR SHARES OF COMMON STOCK OF YAKULT HONSHA CO. LTD. (THE "COMPANY") ISSUED IN CONJUNCTION WITH AN ISSUE BY YAKULT HONSHA CO. LTD., OF US$50,000,000 2⅜% GUARANTEED BONDS WITH WARRANTS DUE 1991

Pursuant to clause 4(A) and (B) of the Instrument dated 5th August, 1986 under which the warrants were issued NOTICE IS HEREBY GIVEN as follows:—

1 An issue of convertible bonds of the company has been made on 21st October, 1986. The bonds are convertible into shares of common stock of the Company at a price of yen 2,995 per share.

2 As a result of such convertible issue by the company, the Subscription Price at which shares are issuable upon exercise of said warrants will be adjusted pursuant to condition 7 of the warrants from yen 3,332 per share of common stock to yen 3,322.90 per share of common stock effective 21st October, 1986.

YAKULT HONSHA CO. LTD.
By The Daiwa Bank, Limited
As Principal Paying Agent

Dated: 27th October, 1986.

GRANVILLE

SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,463	Ass. Brit. Ind. Ord.	132	—	7.3	5.5	8.1	7.8
—	Ass. Brit. Ind. CULS	130	—	10.0	7.7	—	—
925	Armitage and Rhodes	37xd	—	4.2	11.4	8.2	4.7
8,630	BBB Design (USM)	95	—	1.4	2.1	18.2	18.2
64,294	Bardon Hill	200	+4	4.5	2.3	22.7	20.8
4,698	Bray Technologies	85	+2	4.3	5.1	10.1	9.2
343	CCL Ordinary	86	+2	2.3	3.0	7.0	10.3
1,113	CCL 11pc Conv. Pref.	89	—	15.7	17.6	—	—
18,177	Carborundum Ord.	253	—	9.1	3.6	12.2	12.5
644	Carborundum 7.5pc Pf.	92	+1	10.7	11.6	—	—
11,427	Deborah Services	148	—	7.0	4.8	15.2	20.0
3,176	Frederick Parker Group	22	−1	—	—	—	—
1,808	George Blair	96	−2	3.8	3.9	2.5	3.6
3,816	Ind. Precision Castings	94	−2	3.0	3.7	8.4	8.3
12,109	Isis Group	152xd	—	18.3	12.0	8.1	8.8
6,886	Jackson Group	128	—	6.1	4.8	8.7	7.5
51,050	James Burrough	305	−2	17.0	4.8	10.3	9.4
3,297	James Burrough 9pcPf.	93	+1	12.9	13.9	—	—
80,822	Multihouse NV (AsE)	780	−60	—	—	40.5	53.3
8,717	Record Ridgway Ord.	379	—	—	—	8.8	11.7
2,349	Record Ridgway 10pcPf.	87	—	14.1	16.2	—	—
887	Robert Jenkins	87	−2	—	—	3.8	5.4
1,620	Scruttons "A"	89	—	—	—	—	—
3,100	Torday and Carlisle	127xd	+1	6.7	4.6	7.7	7.8
1,400	Trevian Holdings	322	—	7.9	2.5	8.7	8.6
13,400	Unilock Holdings (SE)	57	−2	2.8	4.2	12.3	11.6
24,683	Walter Alexander	98xd	−1	5.0	5.2	9.2	8.8
4,698	W. S. Yeates	197	—	17.6	8.8	19.7	21.9
3,943	W. Yorks. I. H. (USM)	33	—	0.6	6.0	13.3	13.3

(AsE) Amsterdam Stock Exchange.

Granville & Company Limited, 8 Lovat Lane, London EC3R 8BP, Telephone 01-621 1212, Member of FIMBRA

Granville Davies Coleman Limited, 27 Lovat Lane, London EC3R 8DT, Telephone 01-621 1212, Member of the Stock Exchange

FINANCIAL TIMES STOCK INDICES

	Oct. 24	Oct. 23	Oct. 22	Oct. 21	Oct. 20	Oct. 17	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	82.53	82.90	82.89	82.56	82.26	82.36	94.51	80.39	127.4	49.18
Fixed Interest	88.81	88.75	89.02	88.94	88.89	88.84	97.68	86.55	150.4	50.53
Ordinary	1251.6	1249.9	1262.4	1265.2	1264.4	1281.5	1425.9	1094.3	1425.9	49.4
Gold Mines	262.9	277.2	286.6	290.5	288.9	298.2	337.8	185.7	734.7	43.5
FT-Act All Share	783.44	782.10	789.16	789.42	790.19	797.23	832.39	664.42	832.39	61.92
FT-SE 100	1577.1	1572.5	1589.6	1591.2	1590.2	1610.0	1717.6	1370.1	1717.6	986.9

I.G. INDEX
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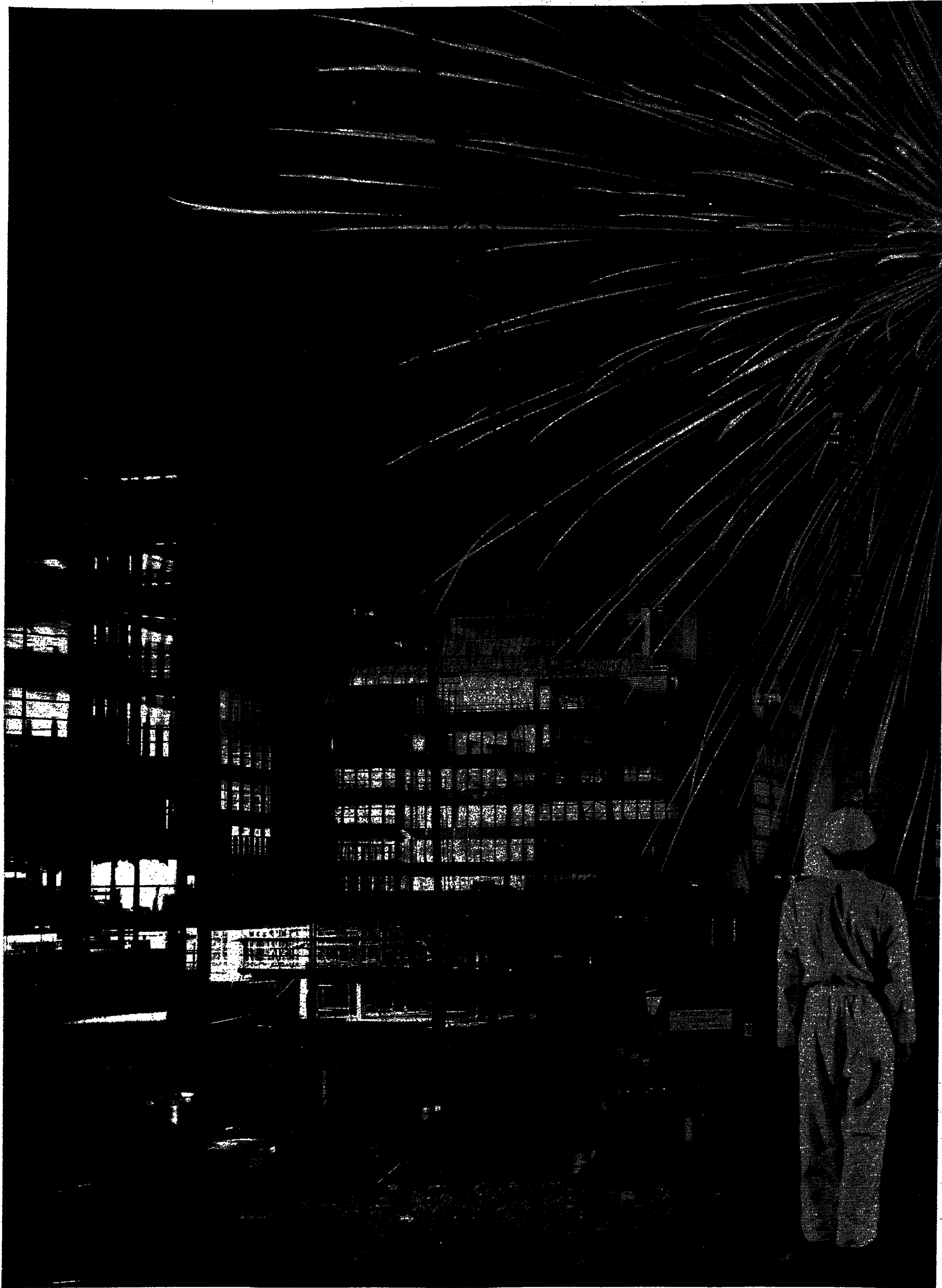
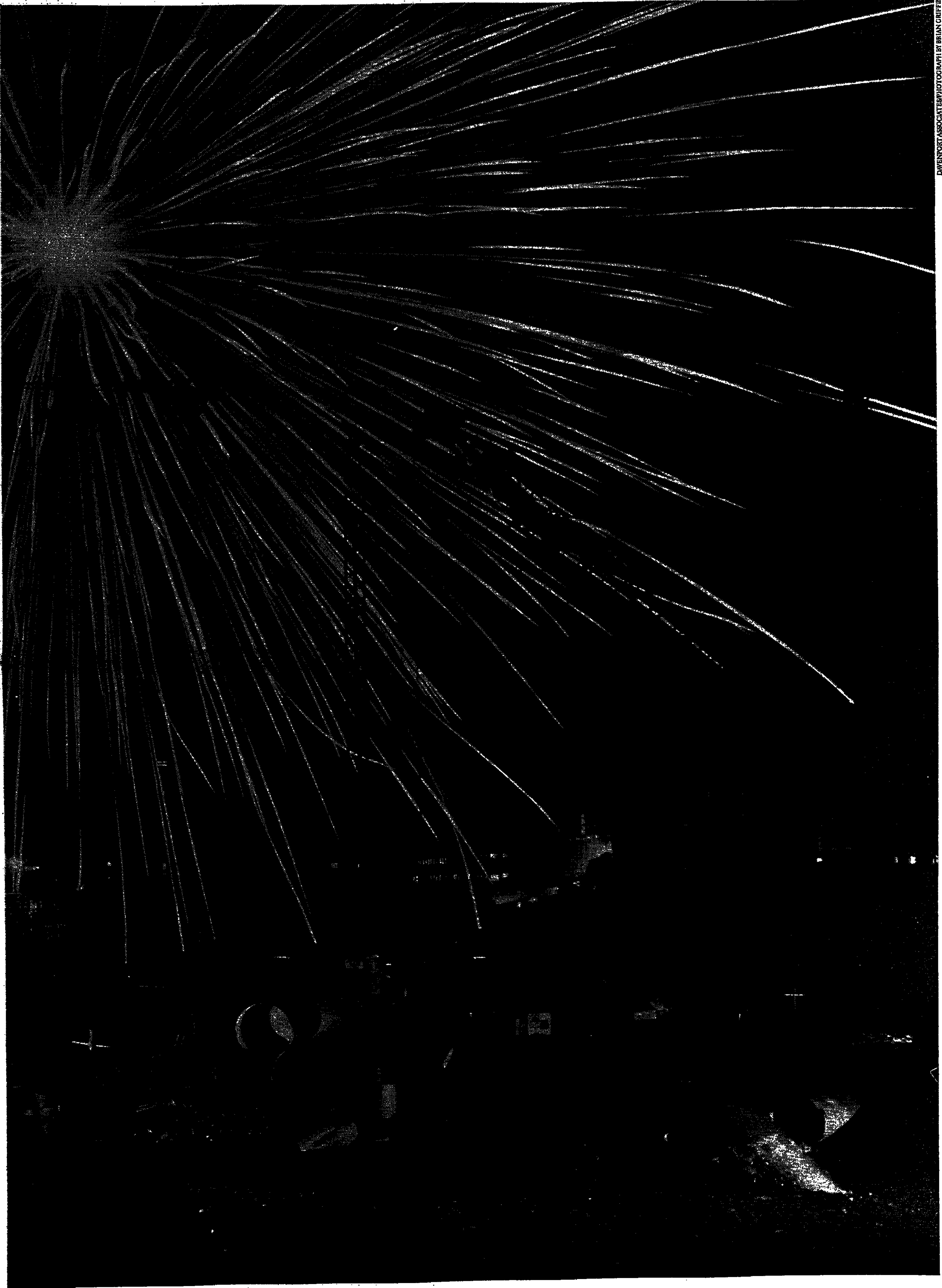
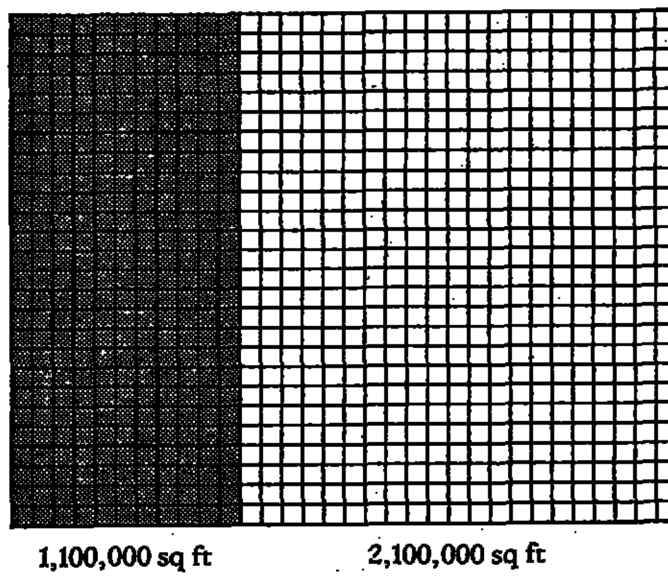
A BIGGER BROADGATE





DAVENPORT ASSOCIATES/PHOTOGRAPH BY BRIAN GRIFFIN

A BIGGER BROADGATE



The first four phases of Broadgate, now completely taken up by City tenants, are to be augmented by a further eight phases.

NET AREA
Phases 1 to 12: 3,200,000 square feet (net)

PRE-LET
Phases 1 to 4: 1,100,000 square feet (net)

SPACE AVAILABLE
Phases 5 to 12: 2,100,000 square feet (net)

TENANTS: PHASES 1-4
Security Pacific Corporation
Shearson Lehman Brothers
Union Bank of Switzerland
Lloyds Bank

FLOOR AREAS
25,000 square feet to 135,000 square feet (net)

TYPICAL SPECIFICATION
Wide, uninterrupted floors
High level of servicing
11 feet clear height trading floors
Specialist capacity to accommodate trading floors

ARCHITECTS: PHASES 1-4
Arup Associates

ARCHITECTS: PHASES 5-12
Skidmore, Owings & Merrill — Chicago/London

BROADGATE
Rosehaugh Stanhope Developments plc

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −	Net Div.	Times Covered	Gross Yield	P/E Ratio
135	F.P.	24/10	164	151	Sandell Perkins 10p	162	−2	u3.8	2.9	3.3	14.9
100	50	14/11	102	80½	TSB	81	+½	W4.26	3.1	4.6	10.0
‡‡	F.P.	—	385	320	‡Utd. Trust & Credit £1	357	+5	u14.0	2.1	5.9	11.7
§160	F.P.	5/12	179	167	‡Whitney Mackay 10p	167	−3	R4.0	3.0	3.4	13.8
104	F.P.	—	80	80	‡Woolworths Software 10p	80	......	dR3.7	1.5	6.5	14.5

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
‡	F.P.	19/11	106	105½	Costleck Finance 11½% Cnv. Uns. Ln. 1996	104	−2
§100	£10	8/1	12½	11	East Worcs. Water 12½% Red Deb 94-96	12¼	......
§100	£10	29/1	10¾	9½	Essex Water 11¾% Red. Deb. 2002-04	10	−½
¶101.41	£10	26/2	11¾	11½	do 8¾% Red. Pf 1993	11½	......
‡	F.P.	14/11	109	106	‡Goodhead Print 7% Cnv. Red. Prf	108	......
§100	£10	15/5	9½	2	Mid-Sussex Water 11% Red Deb2012-16	4	−½
—	F.P.	—	100⅛	98¾	Nationwide 10⅞% 21/9/87	98¾	......
—	F.P.	—	100¾	100	Do 11¼% 26/10/87	100¾	......
¶101.87	£10	22/1	11¾	11½	Portsmouth Wtr. 8¾% Red. Pf 1996	11½	......
96.645	£25	8/1	24¾	17	Scot. Met. Prop. 10¾% 1stMort.Deb.2016	19	−½
—	F.P.	—	116p	104p	Scott. & Newcastle 7% Conv. Pref. £1	112p	......
¶102.25	£10	8/1	11¾	11½	Tendring Hundred Wtr 8¾% Rd. Pf 1996	11½	......
¶¶	F.P.	24/10	122p	115p	WCRS 5½% Cnv. Cum. Red. Pref. 1999	115p	−1
¶¶	F.P.	—	95p	92½p	Walker (C & W) 6½pc Cnv Cum Red Pref	95p	......
¶¶	F.P.	—	104p	97p	Williams Hldgs 5¾% Cum Cnv Pref	97p	......

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
240	Nil	25/11	24pm	18pm	Bemrose Inds. 20p	18pm	......
180	Nil	5/12	9pm	1½pm	Belzer (C.H.) 10p	1½pm	......
137	Nil	—	18pm	15pm	Bellway	15pm	......
86	Nil	—	6pm	6pm	Brown Boveri	6pm	......
90	Nil	12/12	10pm	7pm	Bryant Hldgs.	8pm	+1
71	Nil	24/11	6pm	5pm	Burns Anderson 10p	4pm	......
$1.80	Nil	26/11	12½pm	4pm	E.R.I.C.	5pm	......
85	Nil	5/12	1½pm	1pm	Lawrence (W)	1pm	......
30	Nil	25/11	9pm	1pm	Norfolk Cap 5p	1pm	......
160	Nil	10/12	58pm	32pm	Parrish (J.T.) 5p	58pm	......
100	Nil	—	50pm	43pm	Ratcliffe (F.S.) Inds.	45pm	+2
720	Nil	—	16pm	10pm	Siebe	11pm	−5

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‡‡ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▮ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

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F.T. CROSSWORD PUZZLE No. 6,161

COURTIER

ACROSS

1 Miss-type across the Channel (12)
10 Survive to be the final wicket to fall? (7)
11 Fellows who complain a lot on the track? (7)
12 Security I add to Professor Beach (5)
13 Pay no hotel bill—like Elsa? (4, 4)
15 Sage greets provider of seasonal fare (6-4)
16 Brand a series of animal communities (4)
18 Disposes of pointless lengths (4)
20 Company plot, based on sound reasoning obviously (4, 6)
22 Decision makers at court (8)
24 Return with nothing to Californian city, exhausted (3, 2)
26 One of two points for suspension in court (3, 4)
27 Georgia in part of Fulham? That's productive! (7)
28 Sheer negligence to race round without a cape (12)

DOWN

2 Gets used to nuts. Eat to order (7)
3 Judge who may once have picked a face! (8)
4 Scraps in Port Stanley (4)
5 Plans to find precious stones beneath the rocks (9)
6 The French follow it a year later—unprofessional people! (5)
7 A dying member of Ulnus genus (3, 4)
8 Acting deceitfully, selling look-alikes perhaps . . . (6-7)
9 . . . in a manner that would ignore even a three-line whip (13)
14 US serviceman leads me into leased premises of the army unit (10)
17 Mixed reaction to Haydn's work (8)
19 Alun, a ticklish person, shows one totally unbalanced (7)
21 Inspires travel from the ground to the top floor? (7)
23 Bitter about a number to search (5)
25 Periods, these, of man (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Abbey Unit Tst. Mngrs. (a)
80 Holdenhurst Rd, Bournemouth 0345 717373

AUTHORISED UNIT TRUSTS & INSURANCES

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dtd Gilt Fd	60.1	60.2	+0.1	—
U.S. Govmnt Bond Fd	50.514	0.516	—	—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Capital & Equity Ts.	48.4	51.5	-0.4	7.62
Growth Trust	51.9	55.3	-0.2	2.24
Income Trust	53.3	56.8	-0.4	5.18

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY 01-588 0592

Growth Fund	70.2	73.7	—	2.80

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Y.G.T.	127.2	135.4	-2.6	3.18

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)
PO Box 93 Cardiff CF1 4NW 0222 35542

AA Friendly Sy Oct 8	—	102.8	—	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	199.5	210.0	—	—
Equity Ser. 1	99.7	105.0	-0.4	—
Prop. Acc. Ser 2	278.5	293.2	—	—
Equity Ser 2	108.3	114.0	-0.6	—
Selective Acc.	232.7	245.0	-0.6	—
Prop. Ser. 4	220.5	232.2	—	—
Equity Ser. 4	111.8	117.7	-0.5	—
Fixed Int. Ser. 4	175.7	185.0	..	—
Indexed Inv. Ser. 4	109.3	115.1	—	—
American Ser. 4	258.3	271.9	+1.6	—
High Inc. Ser. 4	285.6	300.7	-0.6	—
Japan Ser 4	221.9	233.6	-4.7	—
Man. Ser. 4	344.3	362.5	-0.6	—
Money Ser. 4	196.9	207.3	—	—
European Ser 4	121.7	128.2	-0.9	—
Pension Funds				
Property	357.5	376.4	—	—
Equity	749.1	788.6	-3.7	—
Selective	246.3	259.3	-0.6	—
Managed	607.5	639.5	-1.1	—
Security	342.0	360.0	—	—
Fixed Int.	188.6	198.6	+0.1	—
European	195.5	205.8	-1.8	—
American	215.7	227.1	+3.9	—
Japan	227.7	239.7	-5.5	—

Aetna Life Insurance Co Ltd

City of Westminster Assurance—Contd.

Far East Fund	208.2	219.2	+7.2	—
North American Fund	173.2	182.4	+2.6	—
Natural Resources Fund	148.8	156.7	+5.1	—
Pension Managed Fund	375.6	395.4	+0.8	—
Pension Equity Fund	247.1	260.2	+1.9	—
Adventurous Mngd Fd	119.2	125.5	+0.5	—
Balanced Mngd Fd	117.0	123.2	+0.1	—
Conservative Mngd Fd	110.7	116.6	+0.1	—
European Fund	106.9	112.6	+0.4	—
International Fund	115.7	121.8	+0.1	—
$ U.H. Flagship Fd	124.4	131.0	-0.9	—

For other prices please telephone 0908 606101/660888

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

Investment Funds				
Mixed	131.0	137.9	-0.8	—
Equity	146.2	153.9	-1.8	—
Property	109.8	115.6	—	—
Gilt & Fixed Interest	106.4	112.0	—	—
Indexed Securities	97.5	102.7	+0.4	—
Cash	108.1	113.8	—	—
North American	110.6	116.5	+1.3	—
Far East	122.0	128.5	-0.4	—
International	125.5	132.7	-0.3	—
Special Situations	141.5	149.0	+0.5	—
International Income	140.6	148.1	+0.4	—
American Income	121.1	127.5	+1.6	—
European	150.5	158.5	+0.2	—
Flexible Retirement Plan				
Mixed	134.3	141.4	-0.5	—
Equity	140.6	148.6	-0.4	—
Property	115.4	121.5	+0.1	—
Gilt & Fixed Interest	112.1	118.0	-0.5	—
Indexed Linked	98.8	104.0	-0.4	—
Cash	116.2	122.4	—	—
North American	116.5	122.7	+1.7	—
Far East	134.1	141.2	-7.0	—
International	132.2	139.2	-0.6	—
Special Situations	158.0	166.4	+0.2	—
European	173.8	183.0	+0.2	—
Executive Investment Pension Plan				
Prices on October 22. Unit dealings on Wednesday.				
Cash Fd.	140.3	147.7	+0.3	—
Mixed Fd.	187.0	196.9	-1.6	—
Fixed Int. Fd	140.0	147.4	-0.6	—
UK Equity Fd	218.0	229.5	-0.6	—
Property Fd	134.2	141.3	+0.1	—
Overseas Fd	189.1	199.1	-4.1	—
Index Linked Fd	105.4	111.0	-1.1	—
Stock Ex. Fd	151.1	159.1	-1.3	—
North Am Fd	117.3	123.5	-0.3	—
Far East Fd	143.6	151.2	-13.6	—
Special Sits Fd	156.2	164.5	-2.8	—
Europ. Fd	171.7	180.8	-6.0	—

Initial prices available on request.
For other prices, telephone 0272 290566

Clerical Medical Managed Funds Ltd
15 St James's Sq, London SW1Y 4LQ 01-930 5474

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg
World Fund NAV ... $18.46 | +0.04 | —

World Wide Growth Management
10a, Boulevard Royal, Luxembourg
Worldwide Gth Fd ... $16.23 | ... | —
Inv. Adv.: M. & G. Inv. Mngt., Ltd, London

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg
Advanced Tech ... $14.33 | ... | —
Dynamic Gwth Fd ... $18.58 | ... | —

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268
Zero Bond Fund ... $11.94 12.65 | —

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
Charities Aid Fndtn Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3 01-283 5461				
Call Fund	10.33	7.72	11.34	3-mth
7-day Fund	10.48	7.83	11.53	3-mth
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	10.30(CAR10.70)		..	3-Mth
The Money Market Trust				
63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fund	10.46	7.82	11.44	6mth
7-day Fnd	10.19	7.62	11.14	6mth
Oppenheimer Money Management Ltd				
66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	10.73	8.02	11.52	6-Mth
7-day Fund	10.44	7.80	11.29	6-Mth
Dollar	4.69	3.51	5.01	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	10.25	7.50	10.66	Qtr
Aitken Hume				
30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	10.25	7.66	11.10	Qtr
MthIntChq £1000-£5000	10.03	7.48	10.90	Mth
Mth. Int. Chq. £5,000+	10.25	7.66	11.18	Mth
Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-283 9111				
High Int. Cheque Acc.	11.00	8.22	12.33	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc.	10.50	7.85	11.40	Mth
Barclays Prime Account				
PO Box 125, Northampton 0604 252891				
High Int. Cheque	10.00	7.50	10.86	Qtr
Beneharrk Trust Ltd				
9 Henrietta Place, W1M 9AG. 01-631 3313				
Cap Chq Deposit Acc	10.25	7.66	11.16	Mth
Charterhouse Bank Limited				
1 Paternoster Row, EC4M 7DH. 01-248 4000				
Sterling	10.50	7.85	11.46	Mth
U.S. Dollar	5.375	4.02	5.76	Mth
German Marks	4.00	2.99	4.27	Mth
Swiss Francs	1.00	0.75	1.06	Mth
Japanese Yen	4.00	2.99	4.27	Mth
Citibank Savings				
St Martins Hse, Hammersmith Grove 01-581 1422				
Money Market Plus	Top rate	7.00	10.18	Mth
For other rates please 'phone our Rateline 01-581 0629				
Co-operative Bank Cheque & Save				
78-80 Cornhill EC3 01-626 6543				
£500-£2,500	7.38	5.00	7.18	Qtr
£2,500 +	10.38	7.00	10.12	Qtr
Dartington & Co Ltd				
Dartington, Totnes, Devon TQ9 6JE 0803 862271				
Money Mkt Acc	10.625	7.94	11.52	Qtr
Henderson/Bank of Scotland				
38 Threadneedle St EC2P 2EH 01-628 8060				
Money Mkt. Cheque Acc.	10.5	7.85	11.44	Mth
Legal & General (Money Mngrs) Ltd				
355 Euston Road, NW1 3AG 01-388 3211				
High Int Dep Acc	9.70	7.25	10.39	6-mth
Lloyds Bank PLC				
71 Lombard St, London EC3P 3BS 01-626 1500				
HighIntCheque Account	10.00	7.93	11.16	Qtr
Lombard North Central PLC				
17 Bruton St, W1A 3DH 01-409 3434				
14-Day Notice	10.37	7.75	10.92	—
M & G/Kleinwort Benson				
M & G Hse., Victoria Rd., Chelmsford 0345 266266				
H.I.C.A. (£2,500+)	10.37	7.75	11.32	Daily
Midland Bank plc				
PO Box 2, Sheffield. 0742 20999 Ext 8655				
High Int Chq Acc	9.97	7.45	10.79	Qtr
£10,000 +	10.30	7.70	11.16	Qtr
M.I.M. Britannia Ltd				
74-78 Finsbury Pavement, EC2A 1JD 01-588 2777				
Cater Allen	10.13	7.57	11.0379	—
NatWest Special Reserve Account				
41 Lothbury, London, EC2P 2BP 01-256 9933				
£2,000 to £9,999	10.25	7.625	11.05	Qtr
£10,000 and above	10.375	7.75	11.24	Qtr
Oppenheimer Money Mgmnt Ltd				
66 Cannon St, EC4N 6AE 01-236 1425				
Money Mngt. Acct	10.50	7.85	11.38	3-Mth
Phillips & Drew Trust Ltd				
120 Moorgate, London EC2M 6XP 01-628 9771				
High Int Chq Acc	10.50	7.85	11.98	Qtr
Provincial Trust				
30 Ashley Rd, Altrincham, Cheshire 061-928 9011				
High Int Chq Acc	11.00	8.22	12.03	Mth
Royal Bank of Scotland plc				
42 St Andrew Sq, Edinburgh EH2 2YE. 031-557 0201				
Premium Account	10.37	7.75	11.24	Qtr
Save & Prosper/Robert Fleming				
28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.B.A.	10.17	7.60	11.12	Daily
Tyndall & Co				
29-33 Princess Victoria St, Bristol 0272 732241				
Demand Acc	10.68	7.98	11.59	Qtr
Money Acc	10.53	7.87	11.42	Qtr
J. Henry Schroder Wagg & Co Ltd				
Enterprise House, Portsmouth 0705 827733				
Special Acc	9.50	7.10	10.34	Mth
Over £10,000	9.75	7.29	10.62	Mth
Western Trust & Savings Limited				
The Moneycentre, Plymouth PL 1SE 0752 224141				
High Int Chq Acc	11.13	8.32	12.08	Qtr
Wimbledon & South West Finance Co Ltd				
114 Newgate St, London EC1A 7AE. 01-606 9485				
High Int Cheque Acc	11.0	8.22	11.94	Qtr

NOTES—Gross: rate in these except from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ‡ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	27
Amstrad	15
BAT	35
BOC Grp	28
BSR	12
BTR	26
Babcock	16
Barclays	42
Beecham	40
Blue Circle	55
Boots	22
Bowaters	32
Brit Aerospace	42
Brit. Telecom	17
Burton Ord	26
Cadburys	17
Charter Cons	24
Comm Union	28
Courtaulds	26
FNFC	17
Gen Accident	75
Gen Electric	15
Glaxo	85
Grand Met	40
GUS 'A'	85
Guardian	75
GKN	24
Hanson Tst.	18
Hawker Sidd	42
ICI	75
Jaguar	42
Ladbroke	32
Legal & Gen	20
Lex Service	32
Lloyds Bank	38
Lucas Inds	46
Marks & Spencer	18
Midland Bk	48
Morgan Grenfell	26
NEI	8
Nat West Bk	48
P & O Dfd	45
Plessey	16
Polly Peck	16
Racal Elect	15
RHM	24
Rank Org Ord	45
Reed Intnl	25
STC	13
Sears	12
TI	40
TSB	8
Tesco	36
Thorn EMI	42
Trust Houses	15
Turner Newall	18
Unilever	148
Vickers	36
Wellcome	17
Property	
Brit Land	16
Land Secs	30
MEPC	32
Peachey	24
Oils	
Brist. Oil & Min	$3\frac{1}{2}$
Brit Petroleum	50
Burmah Oil	32
Charterhall	4
Premier	$3\frac{1}{2}$
Shell	65
Tricentrol	8
Ultramar	17
Mines	
Cons Gold	62
Lonrho	22
Rio T Zinc	62

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
22Jul	22Jan	Exch. 13¼pc 1987	100⅛	16.6	13.21	11.28
10 Aug	10 Feb	Treas 10¼pcCv '87	99⅞	14.7	10.29	11.90
24Aug	24Feb	Exch 2½pc 1987	98¼	18.7	2.55	8.40
6Oct	6Apr	Exch. 10½pc 1987	99⅞	1.9	10.54	11.28
1 Nov	1 May	Funding 6½pc 85-87	98⅛xd	25.9	6.62	10.30
12Dec	12Jne	Treas. 10pc 1987	99⅛	5.5	10.09	11.34
14Jan	14Jly	Treas 3pc 1987	96¼	30.6	3.10	8.23
3May	3Nov	Treas. 12pc 1987	100⅞xd	29.9	11.90	11.03
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	96½	19.6	8.05	10.74
10Nov	10May	Exch 10½pc '88	99⅛xd	3.4	10.61	11.23
14Dec	14Jne	Treas 9¾pc Cv '88	97¾	8.5	9.97	11.26
1Jan	1Jul	Transport 3pc '78-88	91⅝	27.5	3.26	8.46
25 Apr	25 Oct	Treas. 9½pc '88	97xd	18.9	9.79	11.22
22 Aug	22 Feb	Treas 11½pc 1989	100⅛	16.7	11.45	11.22
18 Oct	18 Apr	Treas 9½pc Cnv 1989	96½	11.9	9.84	11.16
15Nov	15May	Treas 3pc 1989	87½xd	8.4	3.43	8.58
14Dec	14Jun	Treas 10½pc 1989	98¼	8.5	10.68	11.21
1Feb	1Aug	Exch 10pc 1989	97⅜	25.6	10.28	11.15
29 Mar	29 Sep	Exch 11pc 1989	99½	26.8	11.05	11.18
15 Apr	15 Oct	Treas 5pc 1986-89	88⅛	8.9	5.67	9.62
15 May	15 Nov	Exch 10¼pcCv '89	100¼xd	8.4	10.23	10.16
15 Jul	15 Jan	Treas 13pc 1990‡‡	104¾	9.6	12.41	11.15
12 Aug	12 Feb	Exch 11pc 1990‡‡	99½	7.7	11.05	11.14
22 Sep	22 Mar	Exch. 12½pc 1990	103¾	18.8	12.05	11.15
8 Nov	8 May	Treas. 3pc 1990	83¼xd	2.10	3.60	8.61
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	93¼	9.5	8.86	10.56
25 Apr	25 Oct	Treas. 10pcCv 1990	96⅛xd	18.9	10.37	11.13
[illegible]						

ENGINEERING—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
May	Dec.	Beauford 10p	61	14.4	††2.69	2.8	6.2	8.0
—		‡Bipel 5p	39½	—	R1.23	3.1	4.4	9.9
Apr	Sept	Birmid Qualcast	126	14.7	†3.75	2.6	4.2	12.1
Jan.	Sept.	Birmingham Mint	185	14.7	6.25	0.6	4.8	11.6
—		Blackwood Hodge	44	15.9	§1.0	4.4	3.2	(7.7)
September		Booth Industries	181	28.7	1.0	1.1	0.8	159.2
—		Boulton Wm 10p	15¼	11'85	B—	—	—	—
Jan	Aug	Braithwaite £1	153	1.7	—	—	—	—
Feb	Oct	Brasway 10p	45xd	1.9	b1.13	4.2	3.5	9.5
—		Bristol Ch.Ship10p	7½	10'80	—	—	—	15.8
Feb.	Nov.	Bromsgrove Inds 5p	70xd	11.8	††1.9	♦	2.6	♦
Nov	May	Brown Eng. 10p	34♦	1.4	0.5	1.6	2.1	35.4
Mar	July	Brooke Tool 5p	34xd	16.6	†1.25	3.9	5.2	6.8
—		Brown (John)	27	6'82	♦—	—	—	—
Sept.	Mar.	Bullough 20p	284	28.7	18.2	2.6	4.1	13.5
Jan	July	C.I. 10p	32xd	13.10	0.9	2.5	4.0	11.4
April		Camford Eng.	81	24.2	—	—	—	♦
Feb	Sept	Carclo Eng.	480	14.7	15.0	2.7	4.4	11.6
Jan	Aug	Castings 10p	93	2.6	3.0	3.3	4.5	8.8
July	Dec	Chamberlin & Hill	96	16.6	3.5	2.9	5.1	9.4
Feb.	July	Chemring Group 5p	560	30.6	†13.5	3.5	3.4	11.9
		Do.Cnv.Rd.Pf 5p	120xd	13.10	6.0	—	7.1	—
—		Christy Hunt	34	1'79	—	—	—	♦
[illegible]								

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—		Alumasc	259	—	R5.85	2.7	3.2	10.1
Nov	May	Amari	110xd	13.10	6.2	2.4	7.7	7.5
Jan	July	Amber Ind. 10p	275	16.6	8.5	2.9	4.4	11.3
December		Amer Group FM20	£26	23.12	Q17.5%	5.2	2.0	9.9
—		Ang. African Fin 7½p	60	1'85	—	—	—	—
Jan	Aug	Anglo Nordic	23	13.1	0.4	—	2.4	—
—		‡Antler 5p	104	—	a3.0	2.4	4.1	14.7
Aug	Mar	Appleyard (A & P) 10p	220	30.6	6.0	2.9	3.8	12.5
Jul	June	Areeson 10p	52	14.4	20.4	—	1.1	9.2
January		Armour Trust 10p	26	9.12	0.4	6.2	2.2	9.9
—		Ashley Ind. Tst. 5p	43	2'85	—	—	—	32.2
—		Assoc. Br. Eng. 1p	4½	12'83	—	—	—	♦
Mar.	Sept.	Do. 8pcCumCvRdPf	287	11.8	8%	—	5.4	—
May	Nov	Assoc Brit Ports	261	15.9	†t6.0	3.5	2.5	14.6
March		‡Assoc. Energy 5p	32	11.2	—	—	—	—
Nov	May	Astry & Madeley 20p	139	29.9	†b4.5	3.0	4.9	9.7
—		Astra AB Sk25	£55½	23.4	Q16%	4.6	0.7	28.1
July	Jan.	Avon Rubber £1	378	2.6	15.7	4.0	2.1	12.7
Jan.	July	BBA Group	143	29.9	F2.4	3.0	2.4	19.7
Oct.	Apr.	BET	391	1.9	16.0	1.5	5.8	14.3
Nov	July	BETEC	80	29.9	†1.8	3.7	3.2	10.5
Apr.	Oct.	BOC Group	326	28.7	†9.38	2.4	4.1	11.9
Jan	July	Do 9pcCvLn2001-06	£230½	12.5	Q9%	92.0	f4.0	—
[illegible]								

[illegible]

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan	May	Mitchell Cotts	54½	10.3	1.5	♦	3.9	♦
August		Monks & Crane 10p	114	30.6	12.7	2.9	3.3	13.9
Jan.	July	Morgan Crucible	315	28.4	†8.5	1.5	3.9	20.6
May		Morris (W) F.A. 20p	16½	—	—	—	—	—
July		Myson Grp 10p	138	29.9	†2.65	2.6	2.7	17.8
Nov	June	NMW Computers	245	13.10	†6.0	3.0	3.4	14.1
Mar.	Sept.	Nash Inds.	65	11.8	†0.5	—	0.8	—
—		Neill & Spencer 10p	15	9/81	—	—	—	—
Jan	July	Newman Inds 10p	33	15.9	†0.8	1.5	3.4	25.2
Apr	Sept	Noble & Lund 10p	106	29.9	0.7	4.3	0.9	34.9
April	Dec	Norton	50	2.6	†0.95	7.0	2.7	7.1
—		Norsk Systems 5p	143	15.9	u1.5	—	1.5	18.3
Jan.	Aug.	Norcros	224	14.7	9.5	2.2	5.8	10.7
Oct.	April	Nu-Swift 5p	186	12.5	†3.5	2.1	2.7	24.8
May	Nov	OCE 9pc Cnv 1987-92	£321½	14.4	Q9%	—	[illegible]	—
Feb.	Aug.	Oakwood Grp.	88	27.1	†5.0	1.3	[illegible]	12.2
Dec	July	Office & Elect.	198	2.6	8.5	2.9	6.1	8.0
Apr	Oct	Oldacre 20p	176	10.2	†5.0	♦	4.1	♦
—		Omnitech 1p	28	—	—	—	—	—
—		Optometrics $0.01	22	—	—	—	—	—
May	Nov	Oriflame £1	860	29.9	†24.5	2.1	4.0	16.7
Jan.	June	Overstone 12½p	6	12.5	[illegible]	1.9	16.7	3.2
December		PCT Grp 10p	123	15.9	[illegible]	—	5.8	—
April		PLM 'B' Sk25	[illegible]	8.4	Q23.2%	0.3	3.1	—
June	Dec	PSM Intl.	188	8.10	[illegible]	2.1	4.2	14.0
June		Paper Systems $0.01	195	25.4	[illegible]	3.4	1.4	21.7
Apr.	Dec.	Pacific Sales 10p	51	15.9	3.0	1.4	8.9	12.2
Apr	Nov	Parker Knoll 'A'	407	29.9	12.0	3.2	4.2	10.7
February		Parkfield Group 2p	181	11.8	3.6	4.2	2.8	11.5
—		Pavion Intl	24	—	—	—	—	5.3
Aug.	Feb.	Do 11pc CnLn '94-02	£374½	11.8	Q11%	—	05.1	—
June	Nov	Pearson	555	15.9	†10.0	2.8	2.5	18.0
—		Peek Holdings 5p	45	—	—	—	—	—
Mar	Oct	Peerless	145	7.9	6.3	1.5	6.1	13.8
July	Nov	Pentland 10p	498	15.9	†0.75	22.4	0.2	24.4
May	Dec.	Photo-Me	£12½	13.10	5.75	♦	0.6	♦
Feb.	Aug.	Pilkington Br. £1	517	16.6	13.5	2.7	3.7	11.2
June	Dec.	Pitney-Bowes Cnv. Ln.	£443½	16.6	Q5½%	—	1.3	—
Sept.	April	Plastic Const. 10p	82	11.8	†2.8	2.5	4.8	11.5

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

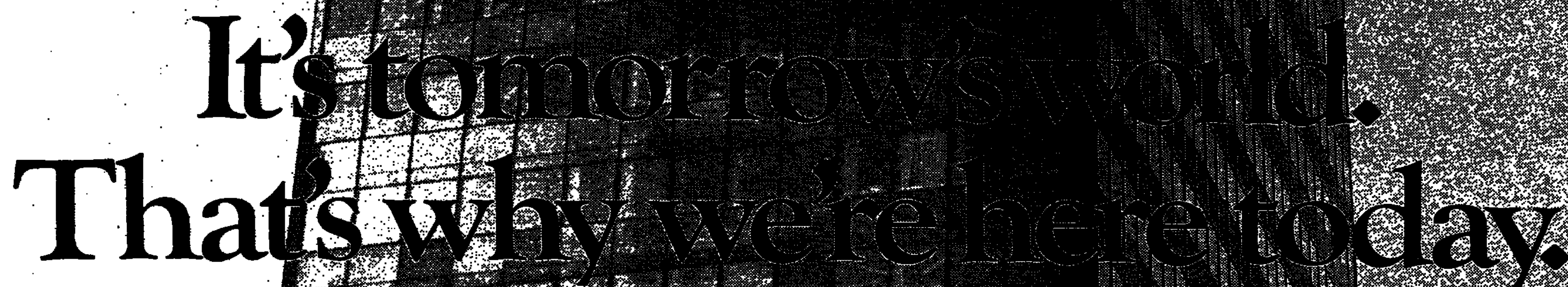
Miscellaneous

NOTES

REGIONAL & IRISH STOCKS

"Recent Issues" and "Rights" Page 43 (International Edition Page 41)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £825 per annum for each security.



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Knowing about money isn't enough.

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We're new, we're independent, and we're realistic.

We can advise you on takeovers, reversals, asset injections, new equity and capital, flotations, and company strategy.

We can help you with finance for building and developments.

We can arrange mortgages and restructure debt. We can arrange finance, both on and off balance sheet.

To use jargon, we can provide creative financial engineering.

We can guide you through unitisation, and securitisation; through pooled investments and partnerships; through income and capital assignment.

We can't say we have all the answers. (Only a fool would say that.)

What we can say, is we've thought of most of the questions.

If it's question time for you, please get in touch.

JLW Financial Services Limited

Kent House, Telegraph Street, Moorgate, London EC2R 7JL. Telephone: 01-638 6050. Telex: 885557. Fax: 01-638 0241. A Member of the Financial Intermediaries Managers and Brokers Regulatory Association.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

1986 High	Low	October 24	Price Frs.
[illegible]			
3,500	2,290	B.B.L.	3,020
16,550	9,600	Banq. Gen. Lux.	16,300
17,000	9,400	Banq. Int.A.Lux.	15,100
14,500	8,250	Bekaert	10,200
4,660	2,640	Ciment CBR	3,640
195	120	Cockerill	153
5,840	1,662	Delhaize	5,150
4,940	3,580	EBES	4,560
17,350	10,426	Electrobel	14,925
2,700	1,890	Fabrique Nat.	2,000
7,800	3,580	GB Inno BM	7,800
4,625	2,695	GBL (Brux)	3,815
6,800	4,310	Generale Bank	5,770
6,650	4,750	Gevaert	6,050
8,160	5,700	Hoboken	7,650
3,995	2,880	Intercom	3,650
18,000	10,100	Kredietbank	16,100
11,880	9,900	Pan Holding	11,750
9,700	6,050	Petrofina	9,400
29,000	17,200	Royale Belge	29,000
3,270	2,120	Soc. Gen. Belge	2,970
11,750	7,710	Sofina	11,000
8,920	6,050	Solvay	7,910
585	244	Stanwick Intl.	250
6,770	4,675	Tractionel	6,070
9,030	5,300	UCB	8,700
6,200	3,705	Wagons Lits	5,380

DENMARK

1986 High	Low	October 24	Price Knr. %
424	298	Andelsbanken	337
670	510	Baltica Skand	645
348	235	Cop Handelsb'nk	262
470	318	D. Sukkerfab	377
381	259	Danske Bank	287
1,980	1,320	De Danske Luft	1,980
298	179	East Asiatic	181
1,240	900	Forenede Brygg.	1,030
268	180	Forenede Damp.	186
665	310	GNT Hld.	347
820	505	I.S.S.B.	715
846	475	Jyske Bank	490
281	218	Novo Inds*	223
339	236	Privatbanken	258
470	310	Provinsbanken	337
339	254	Smidth (F.L.) B	293
1,020	730	Sophus Berend.	755
331	136	Superfos	140

FRANCE

1986 High	Low	October 24	Price Frs.
1,811	1,473	Emprunt 4½% 1975	1,650
9,560	7,190	Emprunt 7% 1973	9,061
595	298	Accor	420
845	608	Air Liquide	751
718	508	BIC	630
2,360	1,610	Bongrain	2,345
1,457	909	Bouygues	1,380
4,430	2,730	BSN Gervais	4,285
2,500	1,368	CIT Alcatel	1,900
3,685	2,213	Carrefour	3,625
661	468	Club Mediter'n.	617
1,385	872	Cie Bancaire	1,135
468	347.5	Cofimeg	404
2,525	1,721	Damart	2,300
4,150	2,152	Darty	4,150
1,883	1,050	Dumez S.A.	1,840
1,688	877	Eaux (Cie Gen)	1,346
373	196	Elf-Aquitaine	310
3,405	2,000	Essilor	3,300
1,085	714	Gen.Occidentale	1,030
[illegible]			

SWITZERLAND

[illegible]

AUSTRALIA

1986 High	Low	Oct. 24	Price Aust. $
[illegible]			
9.1	6.2	BHP	8.84
8.20	5.3	Burns Philip	7.9
8.30	5.48	CRA	7.76
3.75	2.60	CSR	3.05
6.00	2.7	Chase Corp	5.7
1.24	0.63	Claremont Pet.	1.00
6.4	4.1	Coles Myer	6.44
2.62	1.80	Comalco "A"	2.35
0.28	0.10	Consolidated Pet.	0.24
3.15	1.7	Costain Aust.	3.05
5.12	2.0	Elders IXL	4.95
1.82	1.41	Energ. Res.	1.6
2.85	2.15	Gen. Prop. Trust	2.53
3.90	3.18	Hardie (James)	3.85
2.60	1.55	Hartogen Energy	2.6
7.68	4.85	Herald W'yTimes	7.86
2.92	2.12	ICI Aust.	2.7
9.0	4.9	Industrial Equity	8.54xr
0.4	0.18	Jimberlana F.P.	0.35
0.21	0.14	Kia Ora Gold	0.19
8.2	4.9	Kidston Gold	7.8
10.2	5.74	Lend Lease	9.9
3.12	1.65	MIM	2.8
3.85	2.68	Mayne Nickless	3.2
6.5	4.0	Nat. Aust. Bank	5.4
36.6	9.02	News	35.5
3.85	2.4	Nicholas Kiwi	3.8
1.9	0.65	Noranda Pacific	1.9
2.85	1.70	North Bkn Hill	2.68
1.28	0.65	Oakbridge	0.8
3.8	2.27	Pacific Dunlop	3.6
3.4	1.7	Pancontinental	2.7
3.10	2.46	Pioneer Conc.	2.9
3.18	2.00	Placer Pacific	3.16
4.80	2.02	Poseidon	4.5
1.97	1.34	Queensland	1.88
6.4	3.82	Reckitt&Colman	6.4
2.35	1.6	Repco	2.35
5.56	3.28	Santos	4.25
5.2	3.96	Smith (Howard)	4.9
4.15	2.18	TNT	3.55
6.7	5.2	Tooth	5.64
3.1	1.85	Vamgas	2.85
5.0	2.82	Western Mining	4.75
6.28	4.4	Westpac Bank	4.58
1.2	0.75	Woodside Petrol	1.12
3.82	2.65	Woolworths	3.82
4.75	3.35	Wormald Intl.	4.35

NETHERLAND

1986 High	Low	Oct. 24	Price Fls
52.7	44.6	ACF Holding	63.5
125.2	88.7	AEGON	90.6
102.4	69.5	Ahold	102.4
181.9	142	AKZO	144.5
638	530	ABN	535
95.8	70.2	AMEV	72.9
117	92.2	AMRO	90.6
260	95	Bredero Cert.	95
19.9	12.1	Bos Kalis Westm.	12.1
225	135	Buehrmann-Tet.	208
33	17.4	Calland Hlgs.	19.6
203.5	156.8	Dordtsche Pet'm	187.8
246	154	Elsevier-NDU	230.3
99.5	53.7	Fokker	58
60.8	44.5	Gist Brocades	44.7
189.5	150.0	Heineken	165.3
118	57.2	Hoogovens	61.4
75	55	Hunter Doug N/V	58
85.8	66.5	Int Mueller	83
65.8	44	KLM	45.9
171.5	118.7	KNP	155.5
96	47.3	Naarden	90
89.5	71.5	Nat Ned Cert.	77.7
255.5	187.5	Ned Mid Bank	203
219.9	159.0	Nedlloyd	169.5
[illegible]			

NORWAY

[illegible]

SOUTH AFRICA

[illegible]

GERMANY

1986 High	Low	October 24	Price Dm
360	265	AEG	319.5
2,878	1,190	Allianz Vers.	2,180
331.8	239	BASF	274.5
350	262.5	Bayer	291.5
688	515	Bayer-Hypo	565
675	468	Bayer-Verein	515
693	465	BHF-Bank	510
645	473	BMW	584
348	232.5	Brown Boveri	310
377.5	258	Commerzbank	304.5
336	203	Cont'l Gummi	320.9
1,549.5	1,106	Daimler-Benz	1,230
534	387	Degussa	488
240	168	D'sche Babcock	198.5
920	723.7	Deutsche Bank	776.5
506	353.3	Dresdner Bank	388
343	267	Feld-Muehle	290.5
489.8	380	Henkel	466
1,300	710	Hochtief	1,095
327	240	Hoechst	257.3
201	131	Hoesch Werke	137
660	470	Holzmann (P)	549
245	168	Horten	241
660	426	Hussel	634
483	318	Karstadt	475.5
536.5	350	Kaufhof	520
393	193.2	KHD	204
125	69	Kloeckner	75.5
830	579	Linde	830
311.8	155	Lufthansa	181
247	179	MAN	230
311.5	163.1	Mannesmann	178
1,374	958	Mercedes Hld.	1,125
430	265	Metallgesell	322
4,380	2,190	Muench Rueck.	2,200
736	548	Nixdorf	716.5
1,420	941	Porsche	1,030
297	167	Preussag	216
275	186.5	Rhein West Elect	227.5
415	322	Rosenthal	408
670	514	Schering	623
826.5	590.8	Siemens	691
198	145.5	Thyssen	155.5
390	239	Varta	376
346	235.5	Veba	283.5
202	139.5	V.E.W	151.5
550	392	Verein-West	475
684	448	Volkswagen	480

ITALY

1986 High	Low	Oct. 24	Price Lire
34,995	19,980	Banco Com'le	23,950
858	575	Bastogi-IRBS	738
4,780	3,050	Centrale	3,570
16,400	6,160	C.I.R.	8,000
4,590	3,800	Credito Italiano	3,530
16,500	6,631	Fiat	13,740
172,080	75,150	Generali Assicur.	138,888
81,505	48,200	Italcementi	77,900
1,430	920	La Rinascente	1,015
4,533	2,705	Montedison	2,850
18,890	8,710	Olivetti	15,500
8,970	6,085	Pirelli Co.	7,390
6,510	3,370	Pirelli Spa	5,265
6,886	4,549	Saipem	4,549
7,650	4,996	Snia BPD	6,190
64,500	24,250	Toro Assic	35,000

SWEDEN

1986 High	Low	Oct. 24	Price Kroner
250	178	AGA	188
378	245	Alfa-Laval B	305
385	205	ASEA (Free)	352
532	370	Astra (Free)	532
252	166	Atlas Copco	209
250	155	Beijer A (Free)	192
310	263	Cardo (Free)	305
296	159	Cellulosa	279
328	194	Electrolux B	317
[illegible]			

HONG KONG

[illegible]

SINGAPORE

[illegible]

JAPAN

1986 High	Low	October 25	Price Yen
1,970	1,130	Ajinomoto	1,660
1,140	745	All Nippon Air	899
2,160	1,640	Alps Electric	2,140
919	725	Asahi Chem.	725
1,410	890	Asahi Glass	1,280
991	691	Bank Tokyo	840
783	602	Bridgestone	630
850	527	Brother Inds.	585
1,200	881	Canon	1,140
1,640	1,180	Casio Comp.	1,540
1,440	981	Chugai Pharm	1,090
1,760	715	Daiei	1,140
1,740	1,460	Dai-Ichi Kan. Bk.	1,660
555	300	Dai Nippon Ink.	469
2,000	1,180	Dai Nippon Ptg.	1,700
1,720	841	Daiwa House	1,310
2,400	734	Daiwa Sec.	1,380
2,000	1,380	Eisai	1,550
7,750	5,070	Fanuc	6,240
1,770	1,460	Fuji Bank	1,640
3,390	1,650	Fuji Film	3,310
2,070	888	Fujisawa	1,800
1,140	825	Fujitsu	1,120
610	324	F'urukawa Elect.	488
2,470	1,800	Green Cross	2,210
1,320	794	Heiwa Real Est.	900
1,130	760	Hitachi	990
2,350	1,150	Hitachi Credit.	1,600
1,400	989	Honda	1,330
2,620	1,000	Indl. Bk. Japan	1,980
650	160	Ishikawajima Hr.	370
410	310	Isuzu Motor	342
942	413	Itoh (C)	665
4,650	2,950	Ito. Yokado	3,600
13,700	6,600	JAL	9,100
1,590	963	Jusco	1,500
1,500	463	Kajima	990
1,740	986	Kao Corp.	1,450
279	134	Kawasaki Steel	165
1,750	757	Kirin	1,300
237	153	Kobe Steel	168
561	450	Komatsu	471
808	585	Konishiroku	637
480	339	Kubota	350
1,280	750	Kumagai	940
4,980	3,310	Kyocera	4,560
590	311	Marubeni	490
2,950	1,640	Marui	2,530
545	362	Mazda Motor	385
914	535	Meiji Seika	751
1,910	1,160	MEI	1,630
1,760	1,450	M'bishi Bank	1,600
909	508	M'bishi Chem	830
1,490	589	M'bishi Corp	900
600	328	M'bishi Elect.	410
2,800	1,070	M'bishi Estate	1,920
650	353	MHI	406
1,250	951	Mitsui Bank	1,060
909	405	Mitsui	493
2,180	989	Mitsui Estate	1,450
431	209	Mitsui Toatsu	297
1,400	590	Mitsukoshi	1,040
1,120	790	NGK Insulators	889
2,180	675	Nikko Sec.	1,290
1,660	1,200	Nippon Denso	1,520
2,440	1,160	Nippon Elect.	1,990
1,420	550	Nippon Express	898
2,220	1,350	Nippon Gakki	1,660
1,200	801	Nippon Kogaku	935
335	128	Nippon Kokan	189
1,440	791	Nippon Oil	1,090
614	447	Nippon Seiko	504
1,560	758	Nippon Shimpan	915
271	154	Nippon Steel	158
593	338	Nippon Suisan	390
606	293	Nippon Yusen	377
690	525	Nissan Motor	565
874	634	Nisshin Flour	735
3,570	1,010	Nomura	2,460
1,330	970	Olympus	1,120
629	311	Onoda Cement	430
1,410	910	Orient Finance	934
4,760	2,550	Orient Leasing	3,410
2,460	1,550	Pioneer	2,330
1,150	755	Ricoh	970
1,700	1,070	Sankyo	1,140
1,600	1,220	Sanwa Bank	1,330
[illegible]			

SPAIN

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO
Closing prices October 24

Sales	Stock	High	Low	Close	Chng
27188	AMCA Int	$12½	11⅞	12	−¾
2500	Aberford	380	370	380	+10
9330	Abitibi Pr	$24⅝	24½	24½	+¼
5875	Agnico E	$28⅝	28	28⅛	−½
6800	Albrta En	$11¾	11⅝	11⅝	
240	Albrta N	$14	14	14	
85670	Alcan	$44⅝	44	44⅛	−⅛
1149	Algoma St	$14½	14	14	−½
44400	Asamera	$8⅝	8¼	8⅝	−⅛
5400	Atco I f	$8	7⅞	7⅞	−¼
3800	Atco II	$8½	8¼	8¼	−½
100	BC Sugar A	$21½	21½	21½	−⅝
38550	BGR A	$8⅞	8¾	8⅞	
40800	BP Canada	$34⅝	34¼	34¼	
3600	Banister C	$9½	9	9	−½
101236	Bk BCol	355	330	350	+20
49372	Bk Montl	$33⅞	33½	33⅝	−⅛
234680	Bk NScot	$16¼	16	16¼	+¼
179821	Bell Can	$36⅝	36⅛	36⅜	
1800	Bluesky	285	275	280	+10
7400	Bonanza R	142	140	142	+2
14470	Bow Valy	$11⅝	11¼	11¼	−⅛
2550	Bramalea	$22	21⅞	22	+⅛
65366	Brascan A	$27¼	26⅝	26⅝	−⅝
32000	Brkwater	$5½	5¼	5¼	−⅜
31700	Brenda M	$9⅝	9⅜	9⅜	
37274	BC ForP	$14	13½	13¾	+¼
31860	BC Res	129	127	127	
6848	BC Phone	$26⅝	26¼	26⅜	−¼
700	Brunswk	$13⅛	13	13	¼
27347	CAE	$10½	10⅜	10½	
7270	CCL B f	$14⅞	14¾	14⅞	−⅛
3000	CIL	$27¾	27½	27½	+⅛
19926	Cad Frv	$32⅞	32¾	32¾	−⅛
700	Cambridg	$23½	23⅜	23½	−¼
57365	Camp RLk	$27⅛	26⅝	27	−¼
2224	Camp Res	180	170	180	+5
100	Camp Soup	$32½	32½	32½	
4046	Campeau f	$26	25	26	−¼
3188	CCem ex p	$13⅝	13⅜	13⅝	
35322	CDC f	$6⅝	6½	6½	
1724	C Nor West	$13½	13½	13½	−¼
8175	C Packrs	$15⅜	15⅜	15⅜	⅛
588	Can Trust	$48½	48½	48½	+½
100	Cdn GE	$96	96	96	+½
48757	Cl Bk Com	$19	18¾	18¾	
8195	C Marconi	$21	20½	21	+½
12376	C Occidental	$22⅝	21⅞	22¼	+¼
283736	CP Ltd	$15⅜	15⅛	15⅛	
233847	CTire A f	$15	14¼	14⅞	+⅝
54850	CUtil A f	$19¼	19⅛	19¼	
500	CUtil B	$19¼	19⅛	19⅛	−⅛
231770	Canlor	$14½	14	14½	
140	Canron A	$17¼	17¼	17¼	+¼
5100	Cara	$10⅝	10½	10⅝	+¼
700	Cara A f	$9⅝	9⅝	9⅝	+⅛
4005	Carl OK	$13⅝	13¼	13¼	
57771	Carma A	15	14	15	
83	Celanese	$15	15	15	
8200	CentFd A	$6⅝	6⅜	6½	−⅛
900	Centrl Tr	$20	20	20	
7500	CHUM B f	$20	20	20	−1
122799	Cominco	$13⅜	13⅛	13⅛	
7338	Comput In	281	280	280	−5
1000	Comterm	115	115	115	−3
10264	Con Bath A	$24¾	24½	24½	
36500	CDistb B f	$6	5⅞	6	
200	Cons Gas	$26⅜	26⅜	26⅜	
18804	Con Glass	$21⅜	20¾	20¾	−⅜
171068	CTL Bank	$17	16¾	16⅞	−⅛
1850	Conwst B	$8¾	8¾	8¾	+⅛
100	Corby	$19½	19½	19½	
705	C Falcon C	$16⅛	16⅛	16⅛	−⅛
275740	Coseka R	85	85	85	
600	Costain Ltd	$12	11¾	11¾	½
1650	Crownx	$23⅝	23¼	23¼	−¼
188758	Crownx A f	$10⅛	10	10⅛	⅛
5800	Czar Res	170	168	168	−2
13900	Denison A p	$5⅞	5⅝	5⅝	−⅛
7200	Denison B f	$5⅝	5⅜	5½	−⅛
2460	Develcon	410	400	410	
2775	Dicknsn A f	$9⅜	9¼	9¼	
20181	Dofasco	$24¼	24	24¼	
20800	Dome Mine	$9¼	9	9	−¼
115759	Dome Pete	120	115	117	−3
9130	D Textile	$18⅛	17¾	18	+¼
28220	Domtar	$31⅝	31½	31⅝	+⅛
15500	Du Pont A	$36¼	36	36	−¼
59425	Dylex A	$17¼	16⅞	17⅛	+¼
872	E-L Fin	$60	58	60	+1
78000	Echo Bay	$29¾	28⅞	29⅛	½
8250	Equity Sw	$6¼	6⅛	6⅛	
4300	FCA Intl	$18	17⅞	18	
57926	Ficnbrdg	$17⅞	17⅝	17¾	
12427	Fed Ind A	$17⅞	17¾	17¾	−⅛
20000	Finning A	$12⅝	12½	12⅝	
1800	Finning B f	$12½	12½	12½	
1000	FCity Fin	$12⅞	12¾	12⅞	+¼
370	Ford Cnda	$140	139	140	
6708	Gandalf	$7¾	7⅝	7¾	
4705	Gendis A	$17½	17¼	17½	+⅜
11000	Giant Yk	$20⅞	20¾	20¾	−¼
2178	Gibrltar	$8¼	8	8⅛	−⅜
21850	Goldcorp f	$7⅞	7⅝	7⅝	−¼
1000	Grafton A f	$17½	17½	17½	−¼
1410	GL Forest	$29¾	29½	29½	−¼
465	Greyhnd	$25⅛	25⅛	25⅛	+⅛
7300	GuarPA f	$13	12¾	12¾	−¼
14224	Gulf Can	$14	13¾	13⅞	⅛
7000	Hawker	$26¾	26¾	26¾	
4479	Hayes D	$12¼	11⅞	12⅛	−⅛
1215	Hees Intl	$31⅞	31¾	31⅞	+⅛
1484	H BayMn s	$6½	6½	6½	
2295	H Bay Co	$24⅝	24½	24½	
34425	Husky Oil	$9	8⅞	9	
32026	Imasco	$33¾	33½	33¾	
22272	Imp Oil A	$45⅛	44¾	44⅞	
31061	Inco	$17½	17⅜	17½	
32465	Indal	$13⅛	13¼	13¼	−¼
13420	Inland Gas	$13½	13⅜	13½	
5895	Innopac	$14½	14¼	14¼	−¼
6187	Inter City	$15⅛	15	15	
504503	Intl Thom	$13⅛	12½	13	+½
7005	Intpr Pipe	$39⅝	39¼	39¼	−¼
300	Ipsco	$7¾	7¾	7¾	
3010	Ivaco A f	$20⅜	20¼	20¼	−¼
6400	Jannock	$27½	27⅛	27⅛	−⅛
132	Kerr Add	$16⅛	16⅛	16⅛	−⅜
1050	Kiena Gld	$26	25½	25½	−½
7538	Labatt	$21¾	21¼	21¾	+¼
27821	LL Lac	$24½	24⅛	24¼	−¼
4300	Lacana	$9⅜	9¼	9¼	−⅛
10270	Laidlaw A	$16⅝	16½	16⅝	
29300	Laidlw B f	$16⅛	16	16⅛	
7900	Leigh Inst	$5	490	5	
5250	Loblaw Co	$12⅝	12⅜	12⅜	−⅛
4100	Lumonics	$10½	10½	10½	
10800	MICC	$8⅝	8½	8½	
32072	Mclan H X	$18½	18½	18½	
342	Mcln HY f	$17¼	17¼	17¼	½
20429	Macmillan	$38⅛	38¾	39	
7655	Magna A f	$28⅜	28⅛	28¼	
2350	Maritime f	$15½	15⅜	15⅜	−⅛
15500	Minrl Res	350	340	350	+10
17275	Mitel Corp	$6⅝	6½	6½	
12489	Molson A f	$24⅝	24¼	24¼	−¼
307	Moneco A f	440	415	440	+15
800	MCity Bk	$29¼	29¼	29¼	−¾
2000	M Trusco	$12⅞	12⅞	12⅞	
93580	Moore	$30	29½	29½	
7494	Nat Bk Can	$28	27¾	27⅞	
16795	Nt Vg Trco	$23	22¾	23	
1550	Nfl CapA f	$9⅝	9½	9½	
400	Nfld LP A	$18⅞	18½	18⅞	+⅜
81236	Noranda	$19¾	19½	19⅝	+¼
2405	Norcen	$14	13⅞	13⅞	
8738	Norcn ord f	$13¼	13	13¼	+¼
1502	NC Oils	$11	10⅞	11	−⅛
141875	Nor Tel	$42¼	42	42¼	+⅜
34020	Northgat	$6½	6½	6½	¼
72884	Nva AltA f	$5⅞	5¾	5¾	−⅛
1165	Nowsco W	$11½	11⅜	11½	+¼
20489	Nu West	38	35	37½	+4½
2500	Numac	$9¼	9	9	−¼
2880	Oakwood	260	250	250	
224	Oakwd A f	130	130	130	
325	Ocelot B f	290	290	290	
16000	Omega Hyd	460	460	460	−5
55308	Oshawa A f	$19⅞	19¾	19⅞	−⅛
22825	PacW Airl	$17⅞	17⅝	17⅞	+⅛
39530	Pguria A f	$13⅝	13⅛	13⅜	
6394	Pamour	$12¼	12½	12½	−½
1800	PanCan P	$24	24	24	+¼
2720	Pegasus	$11½	11⅛	11½	−½
400	PJewl A f	$11½	11½	11½	
50	Pine Point	$9	9	9	
66930	Placer D	$30½	30¼	30¼	−½
47650	Poco Pet	$9⅞	9¾	9⅞	
17800	Powr Cor f	$18¼	18⅛	18⅛	−⅛
6460	Precamb	310	310	310	
2300	Provigo	$18	17⅞	17⅞	−¼
7300	Que Sturg	$5⅛	490	490	−35
36856	Ranger	$5⅝	5½	5½	−⅛
6000	Rayrock f	$6⅞	6¾	6⅞	+⅛
3200	Redpath	$23	22⅞	23	+½
5300	Regionl R	235	230	235	−5
1800	Reitman A f	$29¼	29¼	29¼	+¼
43818	Rio Algom	$21	21	21	
100	Rogers A	$21¼	21¼	21¼	⅜
5800	Rogers B f	$21⅜	21¼	21⅜	
2100	Roman	$10	10	10	
172540	Royal Bnk	$33⅝	33⅜	33⅝	⅛
44515	RyTrco A	$30⅞	30¼	30¾	+⅜
41515	Royex	385	380	385	
1540	SHL Syst	$29⅝	28½	28½	
15180	StL CemA f	$21	20	21	+1
1000	Sceptre	265	265	265	
2044	Scot Paper	$16	15⅞	15⅞	⅛
5043	Scotts f	$11⅜	11⅛	11⅛	⅜
25000	Scotts C	$11½	11½	11½	−¼
97908	Seagram	$85⅛	84⅞	84⅞	½
173320	Sears Can	$11⅜	10⅝	10⅝	⅝
400	Selkirk A f	$23	23	23	
14274	Shell Can	$23¼	22½	22½	¾
264498	Sherritt	$6⅛	6	6	−⅛
16750	Southm	$21½	21	21⅜	⅛
5433	Spar Aero f	$24⅞	24⅜	24⅜	−⅛
3200	Steinbg A f	$35½	35½	35¼	−½
172704	Stelco A	$22⅞	22⅝	22⅝	−⅝
22174	Teck B f	$24½	24⅛	24⅛	−⅛
8379	Terra Mn	220	210	210	−6
5660	Texaco Can	$28⅝	28¼	28¼	−½
27425	Thom N A	$29	28½	28½	−¼
111468	Tor Dm Bk	$23	22¾	22¾	−⅛
100	Tor Sun	$30½	30½	30½	+¼
18574	Torstar B f	$28	27¾	28	+⅜
1300	Total Pet	$22¼	22	22	−⅛
8200	Traders A f	$44	44	44	⅛
10214	TrCan R A	105	103	105	
3300	Trns Mt	$14¾	14½	14½	−¼
11477	TrnAlta UA	$28⅛	27¾	28	+⅛
71622	TrCan PL	$16½	15¾	15¾	−⅝
12562	Trilon A	$30¾	30⅜	30⅜	−¼

F—No voting rights or restricted voting rights.

MONTREAL
Closing prices October 24

Sales	Stock	High	Low	Close	Chng
5779	Bank Mont	$33⅞	33½	33⅝	−⅛
6975	BombrdrA	$14⅝	14⅜	14½	+¼
48835	BombrdrB	$14	13⅞	14	
802	CB Pak	$21⅜	21⅜	21⅜	
18291	Cascades	$14	13⅞	14	+⅛
100	CIL	$27½	27½	27½	
1230	ConBath	$24⅝	24⅝	24½	−⅛
3821	DomTxtA	$18⅛	18	18	+¼
44450	MntTrst	$12⅞	12¾	12⅞	+⅛
14014	NatBk Cda	$28	27⅝	27¾	−⅛
15495	Noverco	$14⅛	14	14	−⅛
25525	Power Corp	$18¼	18⅛	18⅛	−⅛
3180	Provigo	$18	17⅞	17⅞	−⅛
4300	RollandA	$15¼	15	15⅛	+⅛
9711	Royal Bank	$33⅝	33⅜	33½	−⅜
10115	SteinbrgA	$36	35¼	36	+½

Total Sales 3,481,792 shares

OVER-THE-COUNTER
Nasdaq national market, closing prices, October 24

Stock	Sales (Hnds)	High	Low	Last	Chng

Continued from Page 49

Stock	Sales (Hnds)	High	Low	Last	Chng
OpticC	59	16⅛	15¾	16	+⅛
OpticR	19	19	18¼	19	+½
Oracle	42	18¼	17¾	18	+¼
Orbit	18	11	10⅝	10⅞	
OshBA .41	30	93	52	50	52 +1¼
[illegible]					

Indices

NEW YORK

DOW JONES	Oct. 24	Oct. 23	Oct. 22	Oct. 21	Oct. 20	1986 High	1986 Low	Since Cmpl High	Since Cmpl Low
Industrials	1838.26	1834.93	1808.36	1805.66	1811.08	1919.71 (4/9)	1502.29 (22/1)	1917.71 (4/9/86)	41.22 (2/7/32)
H'me Bnds.	91.59	91.75	91.64	91.47	91.32	91.94 (21/4)	86.75 (14/1)	—	—
Transport	825.00	829.38	816.75	817.63	816.25	866.13 (15/10)	686.97 (9/1)	866.84 (31/8/86)	12.32 (8/7/32)
Utilities	202.27	202.15	199.56	199.66	199.33	219.15 (20/8)	169.47 (22/1)	219.15 (20/8/86)	10.5 (8/4/32)

Day's High 1851.66 (1845.05) Low 1822.71 (1806.95)

STANDARD AND POOR'S	Oct. 24	Oct. 23	Oct. 22	Oct. 21	Oct. 20	1986 High	1986 Low	Since Cmpl High	Since Cmpl Low
Composite‡	238.26	239.28	236.26	235.88	235.97	256.3 (27/8)	203.49 (22/1)	256.3 (27/8/86)	4.40 (1/6/32)
Industrials	264.48	265.70	262.19	261.70	261.25	282.24 (2/7)	224.88 (22/1)	282.24 (2/7/86)	3.62 (21/6/32)
Financials	27.38	27.53	27.27	27.19	27.10	31.13 (14/3)	25.18 (22/1)	31.15 (14/3/86)	8.64 (1/10/74)
N.Y.S.E. COMPOSITE	137.38	137.76	136.18	135.99	136.02	145.75 (4/9)	117.75 (22/1)	145.75 (4/9/86)	4.46 (28/4/42)
AMEX. MKT VALUE	262.32	262.53	260.26	260.60	261.31	285.19 (25/6)	240.69 (4/2)	285.19 (25/6/86)	29.15 (9/12/74)
NASDAQ OTC COMP	356.66	356.20	353.98	353.10	353.51	411.16 (3/7)	323.01 (9/1)	411.16 (3/7/86)	54.87 (3/10/74)

DIVIDEND YIELDS	Oct. 17	Oct. 10	Oct. 3	Sept. 26	year ago (approx)
Dow Industrial	3.76	3.82	3.86	3.87	4.60

	Oct. 15	Oct. 8	Sept. 24	Sept. 17	year ago (approx)
S and P Industrial	3.07	3.09	3.09	3.16	3.78
S and P Ind P/E ratio	17.08	16.94	16.89	16.58	12.64

TRADING ACTIVITY

New York	Oct. 24	Oct. 23	Oct. 22
Issues Traded	1,986	1,988	1,969
Rises	700	1,098	768
Falls	847	486	722
Unchanged	439	398	478
New Highs	—	47	33
New Lows	—	25	15

CANADA

TORONTO	Oct. 24	Oct. 23	Oct. 22	Oct. 21	Oct. 20	1986 High	1986 Low
Metals & Minerals	2112.69	2114.7	2113.9	2115.9	2130.7	2442.8 (21/5)	1917.4 (5/6)
Composite	3007.1	3014.0	3021.6	3016.6	3023.1	3129.1 (16/4)	2794.0 (17/2)
MONTREAL Portfolio	1527.2	1530.9	1527.5	1526.2	1528.3	1622.3 (16/4)	1388.8 (22/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Transworld	5,620,300	39⅝	+4⅝
Goodyear Tire	4,194,900	44½	+1⅞
Travelers	2,841,000	44⅞	−⅜
Chase M'hattan	2,635,900	36⅝	+⅜
USX	2,368,500	26	−¼
Philips Petrlm.	2,188,800	10	−½
Ma-Com Inc	2,157,900	12½	½
Allied Stores	1,786,400	66⅛	⅛
Texaco	1,723,800	36⅝	+⅞
TWA	1,543,400	25⅝	−½

	Oct. 24	Oct. 23	Oct. 22	Oct. 21	1986 High	1986 Low
AUSTRALIA All Ord. (1/1/80)	1382.5	1387.1	1372.4	1372.6	1372.6 (21/10)	1010.8 (2/1)
Metals & Mnls. (1/1/80)	697.9	705.5	718.5	719.9	719.9 (21/10)	481.1 (20/5)
AUSTRIA Creditbk Aktien(30/12/84)	[illegible]	232.86	232.22	230.27	268.84 (23/4)	226.58 (5/6)
BELGIUM Brussel SE (1/1/84)	3840.21	3816.89	3818.84	3824.54	4054.33 (5/9)	2788.81 (15/1)
DENMARK Copenhagen SE (3/1/83)	—	199.35	198.44	196.32	258.76 (18/4)	189.29 (6/10)
FRANCE CAC General (31/12/82)	383.1	375.5	370.8	368.5	412.5 (1/9)	287.8 (2/1)
Ind Tendance (31/12/82)	146.2	144.7	142.7	141.4	158.0 (28/8)	101.8 (2/1)
GERMANY FAZ Aktien (31/12/58)	659.25	656.34	649.64	652.47	753.88 (17/4)	583.82 (22/7)
Commerzbank (1/12/53)	1968.4	1959.5	1956.4	1951.8	2278.8 (17/4)	1762.4 (22/7)
HONG KONG Hang Seng Bank(31/7/64)	2286.07	2264.79	(c)	2258.28	2268.85 (15/10)	1559.94 (19/5)
ITALY Banca Comm Ital. (1972)	768.78	775.49	778.99	777.22	908.28 (20/5)	454.67 (24/1)
JAPAN** Nikkei (16/5/49)	16284.9	15696.3	15615.5	16208.9	18936.2 (20/8)	12881.5 (21/1)
Tokyo SE New (4/1/68)	1351.92	1352.65	1320.19	1357.87	1583.35 (20/8)	1025.85 (21/1)
NETHERLANDS ANP.CBS General (1970)	272.7	269.8	270.8	272.8	301.0 (5/8)	248.4 (5/3)
ANP.CBS Indust (1970)	272.9	268.7	270.1	271.4	305.9 (19/8)	234.0 (5/3)
NORWAY Oslo SE (4/1/83)	368.57	368.21	368.88	371.4	402.81 (16/7)	331.87 (4/8)
SINGAPORE Straits Times (30/12/66)	891.74	894.44	886.12	887.39	907.67 (16/10)	563.34 (28/4)
SOUTH AFRICA JSE Gold (28/9/78)	—	1865.8	1882.8	1902.8	2061.0 (13/9)	1169.1 (21/1)
JSE Indust (28/9/78)	—	1576.8	1574.9	1578.8	1599.0 (25/8)	1018.5 (2/1)
SPAIN Madrid SE (30/12/85)	181.60	191.98	192.26	186.16	280.79 (9/10)	100.55 (3/1)
SWEDEN Jacobson & P (31/12/56)	2529.96	2515.77	2495.69	2477.57	2828.82 (12/8)	1728.57 (29/1)
SWITZERLAND SwissBankCpn (31/12/58)	558.1	560.6	560.8	560.3	625.5 (8/1)	497.2 (4/6)
WORLD M.S. Capital Intl.(1/1/70)	—	355.6	351.7	355.1	369.8 (1/9)	249.8 (23/1)

** Saturday October 18: Japan Nikkei (c). TSE (c).
Base values of all indices are 100 except Brussels SE—1,000. JSE Gold—255.7. JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. U Unavailable.

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Closing prices, October 24

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 49

NYSE COMPOSITE CLOSING PRICES

Continued from Page 48

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
32¾	22⅝	SAnRt2.04		6.9	18	51	29⅝	29¼	29⅝	+¼
26⅝	16½	SFeEP n2.88		14.		152	21⅛	20⅞	20½	−½
35⅝	26¼	SFeSoP 1		3.2	20	3279	31⅛	30⅝	31	+¼
73⅞	44¾	SaraLe1.60		2.4	18	850	66¾	65⅝	66	+⅜
42¼	33⅝	SpWel 1.60		3.8	17	9	42	42	42	
22¼	9⅞	SavEP s .88		4.2	13	256	21⅛	20⅞	21⅛	
5⅞	1¾	Savin				603	1¾	d	1⅝	1¾
8⅞	3¼	Savin pf				6	3⅜	3⅜	3⅜	
42⅞	24½	SCANA2.24		5.9	13	585	37⅞	37¼	37¾	+⅛
88	49⅛	SchrPlo.80		2.2	21	2415	82	80½	81⅛	+⅜
37¾	27¼	Schlmb1.20		3.8	213	8411	33	31¾	32	−1⅛
14¾	8½	SciAtl .12		1.3		434	9½	9⅛	9⅛	−½
65⅜	41¾	ScottP 1.38		2.1	13	1012	u65⅞	64⅝	64⅞	+½
18⅛	12½	Scottys .52		4.0	15	70	13	12¾	12⅞	
34¼	14⅞	SeaCnt .42		2.9		282	14⅞	d14	14⅝	−⅜
14⅛	8¼	SeaCt pf1.46		18.	254	8½	d	8	8	−⅜
16⅞	10½	SeaC pfB2.10		20.		74	12	10¾	10¾	−1¼
17	9¾	SeaC pfC2.10		19.		134	11½	10⅝	10⅞	−⅞
51¼	35	SeaC pfD4.12		12.		140	35¾	d35½	35¾	−1¼
4½	1¼	SeaCo				125	2⅝	2⅜	2⅝	
64	37⅞	Seagrm 1		1.6	13	1204	61⅞	60¾	60¾	−⅜
		TucsEP3.30		5.5	12	181	60⅝	59¾	60	−⅛
22¾	7⅜	Tultex s .32		1.8	14	84	17½	17⅝	17⅝	−⅛
19	14¼	TwinDs .70		4.4		11	15¾	15⅝	15¾	
37¾	19	TycoL s .40		1.1	16	139	36⅝	36¼	36⅜	−¼
17¾	11¼	Tyler .40		3.3	18	42	12⅛	12⅛	12⅛	−⅛
		U U U								
64⅝	45	UAL 1		1.7		5107	59¼	57½	59	+1¼
26	13¼	UCCEL			28	1146	25½	25	25¼	−⅜
26⅝	14⅞	UDC s 2		8.9	5	435	22½	22¼	22⅝	+⅛
28¾	20	UGI 2.04		7.8		92	26¼	26	26	−⅛
13¾	9	UNCInc			11	291	9⅝	9½	9¾	
18⅝	10⅞	URS .25r		1.4		1084	18⅛	17	17¾	+1
46¾	34⅝	USFG 2.32		6.0	30	3310	38½	38	38⅝	
57¾	52¾	USFG pf4.10		7.5		64	55	54½	54½	−½
46½	19¼	USG s 1.12		2.7	12	8528	41½	39	41⅜	+2½
160	67½	USG pf 1.80		1.3		5	144	144	144	
40¾	19¼	USPCI			33	198	39⅛	38½	39⅛	+⅞
30⅞	14½	USX 1.20		4.6		23681	26⅜	25⅞	26	−¼
55¾	23⅝	USX pf4.80e		13.		24	36⅜	36⅛	36¼	−⅛
31	22⅞	USX pf 2.25		8.7		115	26	25¾	25¾	−¼
63	38½	WiscPS 3		5.7	13	106	53	52½	53	+¼
36½	22	Witco s 1.12		3.3	12	51	34¾	34⅛	34⅜	−⅛
13⅞	8⅛	WolvrW.12j				98	9½	9¼	9¼	−¼
49	25¼	Wlwth s1.12		2.6	14	1587	42¾	41⅞	42⅝	
5⅝	2	WrldAr			2	244	4	3⅞	4	+⅛
19¾	19	WrldVl n				44	19¼	19	19¼	+¼
51	26⅞	Wrigly s .96		2.0	20	128	48	46½	47⅛	+⅝
4⅝	1⅜	Wurltzr				275	3⅛	2⅝	2⅞	−⅛
17½	10½	WyleLb .32		2.7	29	847	12	11¼	12	+⅝
25¾	15	Wynns .60		2.7		41	22¾	22½	22½	−¼
		X Y Z								
72¼	47⅞	Xerox 3		5.5	12	1273	55¼	54½	54⅝	−¼
58¼	54	Xerox pf5.45		9.6		310	56¾	56½	56⅝	+⅛
28¾	20⅝	XTRA .64		2.7		128	24	23⅝	24	+½
18¾	13½	Yorkln n				253	18⅛	17⅞	17¾	−⅜
39	27	ZaleCp 1.40		4.4		171	32¼	32	32	
6½	2⅜	Zapata .03j				576	2⅝	2½	2½	−⅛
43⅞	20¾	Zayre s .32		1.3	16	1961	24¾	24	24⅝	+¼
17	9¾	Zemex .40		3.4	12	117	12	11⅛	11¾	+½
29⅞	16¼	ZenithE				1168	20⅛	19½	19¾	+⅜
18¼	8	ZenLb s			12	795	9	8¾	8¾	−¼
22⅝	12⅝	Zero s .29		2.0	15	32	14⅞	14⅝	14⅝	−¼
46¾	32¾	Zurnln 1.32		3.5	15	61	38½	38	38¼	+¼
10⅝	9⅞	Zweig n				461	10⅛	10	10⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices October 24

OVER-THE-COUNTER

Nasdaq national market, closing prices, October 24

Continued on Page 47

HAND DELIVERY SERVICE

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THE NETHERLANDS

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Looking for the right path in fog

FOREIGN EXCHANGES often react like a traveller moving across a familiar landscape, covered in thick but patchy fog.

The fog suddenly clears, and a landmark appears, only to be swallowed up again in further impenetrable mist. The traveller is left wondering whether he has just seen the sign he was looking for, or a path leading down a blind alley.

In other words were last week's US economic statistics an indication that the economy is picking up, and taking the dollar with it, or were they the result of special factors, and of only temporary influence?

Two reasons led to the recovery of the dollar. Firstly, the third quarter gross national product growth figure of 2.4 per cent was a considerably improvement on 0.6 per cent for the second quarter, while the rise of 4.9 per cent in September US durable goods orders was much higher than market forecasts of around 2 to 2.5 per cent.

Secondly, the yen is beginning to indicate what the Tokyo stock market has been pointing to for some time, that the prospects for the Japanese economy are causing concern. This, coupled with the recent more stable performance by the dollar, is encouraging renewed Japanese interest in the US bond.

Closer examination of the US figures only tends to make the fog thicken, because they are more than a little ambiguous. Strong demand in the economy was largely the result of dealers encouraging an unsustainably high level of car sales through low cost finance.

It also appears virtually impossible for the US Administration to achieve its forecast GNP growth of 3.2 per cent for 1986. The annual growth rate for the first three quarters has been only 2.2 per cent, and the figure for the fourth quarter would have to be 6.1 per cent to meet the target.

It has also been said that although the GNP and durable goods figures have been strong, other recent figures have shown there are still weaknesses.

The dollar's recovery is only likely to continue if the latest figures are an early indication that inflation is beginning to rise and that interest rates will move up accordingly.

A strong test is likely to be publication of the September US trade figures on Thursday. Forecasts suggest the deficit will not be much changed from August's figure of $13.3bn. Morgan Stanley suggests that a seasonal pickup in imports should be offset by a gradual uptrend in exports, leaving a deficit of $13.5bn, but James Capel is looking for a higher figure of $15.5bn, and believes the present levels of above DM 2.00 and Y160 are unsustainable.

Dealers were generally unimpressed with the UK trade figures for September. Recent comments by Mr Nigel Lawson, Chancellor of the Exchequer, had led to hopes of a substantial improvement over August's record trade deficit of £1.49bn. There was even speculation that the current account might be in surplus, but this was not the case. The trade shortfall of £877m and balance of payments deficit of £277m, after estimated invisible earnings of £600m, were regarded as not good enough, and put downward pressure on sterling.

£ IN NEW YORK

Oct 24	Close	Previous Close
£ Spot	1.4125-1.4135	1.4230-1.4240
1 month	0.63-0.62 pm	0.64-0.62 pm
3 months	1.85-1.83 pm	1.88-1.86 pm
12 months	6.45-6.35 pm	6.40-6.30 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Oct. 24	Previous
8.30 am	68.2	67.7
9.00 am	68.3	67.8
10.00 am	68.1	67.7
11.00 am	67.8	67.7
Noon	67.8	67.7
1.00 pm	67.8	67.7
2.00 pm	67.7	67.7
3.00 pm	68.0	67.7
4.00 pm	67.9	67.6

CURRENCY MOVEMENTS

October 24	Bank of England Index	Morgan Guaranty Changes %
Sterling	67.9	-25.4
U.S. Dollar	111.5	+3.4
Canadian Dollar	77.4	-12.7
Austrian Schilling	132.8	+9.0
Belgian Franc	97.2	-5.7
Danish Kroner	89.7	+2.2
Deutsche Mark	141.8	+19.2
Swiss Franc	167.2	+21.6
Guilder	130.2	+12.7
French Franc	70.5	-12.7
Lira	48.0	-15.7
Yen	207.4	+54.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

CURRENCY RATES

Oct. 24	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.849950	0.727702
U.S. Dollar	5½	1.20084	1.02861
Canadian $	8.58	[illegible]	1.42771
Austrian Sch.	4	17.0976	14.6463
Belgian Franc	8	50.5103	43.2684
Danish Kroner	7	9.13539	7.84725
Deutsche Mark	3½	2.43038	2.08396
Neth. Guilder	4½	2.74692	2.35531
French Franc	9½	N/A	6.81967
Italian Lira	12	N/A	1441.59
Japanese Yen	3½	190.813	165.863
Norway Krone	8	8.90183	7.63484
Spanish Peseta	—	162.278	139.428
Swedish Krona	7½	8.32062	7.14985
Swiss Franc	4	2.00444	1.71880
Greek Drach.	20½	N/A	140.923
Irish Punt	—	N/A	0.765048

* CS/SDR rate for Oct. 23; 1.66605

OTHER CURRENCIES

Oct. 24	£	$
Argentina	1.5420-1.5485	1.0930-1.0965
Australia	2.2080-2.2090	1.5640-1.5655
Brazil	19.78-19.90	14.02-14.09
Finland	6.9755-6.9950	4.9400-4.9430
Greece	193.81-197.18	136.10-138.44
Hong Kong	11.0050-11.0250	7.8015-7.8035
Iran	108.60*	75.80*
Kuwait	0.4140-0.4145	0.29280-0.29300
Luxembourg	59.65-59.75	42.20-42.30
Malaysia	3.7065-3.7160	2.6270-2.6280
N. Zealand	2.7770-2.7870	1.9645-1.9705
Saudi Ar.	5.2925-5.3025	3.7495-3.7505
Singapore	3.0850-3.0925	2.1870-2.1890
S. Af. (Cm)	3.2065-3.2205	2.2685-2.2795
S. Af. (Fn)	7.1515-7.5335	5.0630-5.3335
U.A.E.	5.1890-5.1945	3.6725-3.6735

* Selling rate.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.4130	1.4069	1.3947	1.3773	1.3495
D-mark	2.8700	2.8541	2.8229	2.7796	2.7029
French Fr.	9.3850	9.3576	9.3100	9.2482	9.1324
Swiss Fr.	2.3650	2.3498	2.3231	2.2842	2.2245
Yen	228.00	226.78	224.46	221.13	215.33

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu October 24	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2684	+0.36	+1.03	±1.5368
Danish Krone	7.81701	7.84725	+0.39	+1.06	±1.6403
German D-Mark	2.11083	2.08396	-1.27	-0.60	±1.1127
French Franc	6.87316	6.81967	-0.78	-0.11	±1.3659
Dutch Guilder	2.37833	2.35531	-0.97	-0.30	±1.5069
Irish Punt	0.764976	0.765048	+0.01	+0.68	±1.6683
Italian Lira	1476.95	1441.59	-2.39	-2.02	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Oct 24	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.413	2.870	228.0	9.385	2.365	3.245	1981	1.960	59.70
$	0.708	1	2.032	161.4	6.643	1.673	2.296	1402	1.387	42.25
DM	0.348	0.492	1	79.44	3.270	0.824	1.131	690.2	0.683	20.80
YEN	4.386	6.197	12.59	1000	41.16	10.37	14.23	8689	8.596	261.8
F Fr.	1.066	1.506	3.058	242.9	10	2.520	3.458	2111	2.088	63.61
S Fr.	0.423	0.597	1.214	96.41	3.968	1	1.372	837.6	0.829	25.24
H Fl.	0.308	0.435	0.884	70.26	2.892	0.729	1	610.5	0.604	18.40
Lira	0.505	0.713	1.449	115.1	4.738	1.194	1.638	1000	0.989	30.14
C $	0.510	0.721	1.464	116.3	4.788	1.207	1.656	1011	1	30.46
B Fr.	1.675	2.367	4.807	381.9	15.72	3.961	5.436	3318	3.283	100

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

EURO-CURRENCY INTEREST RATES

Oct. 24	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	10-10½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lire	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Fin.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Fr. (Con.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $ (Sing.)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: Two years 6⅝-6⅞ per cent; three years 7⅛-7⅜ per cent; four years 7⅜-7⅝ per cent; five years 7⅝-7⅞ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Oct. 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4080-1.4290	1.4125-1.4135	0.63-0.60c pm	5.22	1.86-1.81 pm	5.19
Canada	1.9585-1.9815	1.9590-1.9605	0.50-0.42c pm	2.82	1.37-1.25 pm	2.67
Netherlands	3.2205-3.2896	3.24-3.25	[illegible]	5.55	[illegible]	5.70
Belgium	59.15-59.83	59.65-59.75	[illegible]	3.92	[illegible]	3.85
Denmark	[illegible]	[illegible]	[illegible]	1.37	[illegible]	1.60
Ireland	1.0485-1.0605	1.0520-1.0530	[illegible]	-3.71	[illegible]	-3.61
W. Germany	[illegible]	[illegible]	[illegible]	6.27	[illegible]	6.62
Portugal	[illegible]	[illegible]	[illegible]	-4.88	[illegible]	-5.56
Spain	[illegible]	[illegible]	[illegible]	-0.94	[illegible]	-0.31
Italy	[illegible]	[illegible]	[illegible]	-0.30	[illegible]	-0.40
Norway	[illegible]	[illegible]	[illegible]	-3.07	[illegible]	-3.42
France	[illegible]	[illegible]	[illegible]	3.28	[illegible]	3.01
Sweden	[illegible]	[illegible]	[illegible]	2.75	[illegible]	2.48
Japan	[illegible]	[illegible]	[illegible]	6.58	[illegible]	6.44
Austria	[illegible]	[illegible]	[illegible]	5.68	[illegible]	5.53
Switzerland	[illegible]	[illegible]	[illegible]	7.61	[illegible]	7.29

Belgian rate is for convertible francs. Financial franc 59.95-60.05. Six-month forward dollar 3.59-3.54c pm. 12 month 6.40-6.30c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Oct. 24	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4080-1.4290	1.4125-1.4135	0.63-0.60c pm	5.22	1.86-1.81 pm	5.19
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 42.40-42.50.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Mar.	Puts—Last Dec.	Puts—Last Mar.
106	4.00	5.30	0.16	1.40
108	2.29	4.14	0.45	2.24
110	1.19	3.11	1.35	3.21
112	0.37	2.20	2.53	4.30
114	0.14	1.41	4.30	5.51
116	0.04	1.08	6.20	7.18
118	0.01	0.48	8.17	8.58
120	—	0.31	10.16	10.41

Estimated volume total, Calls 318, Puts 109. Previous day's open int. Calls 22,100, Puts 6,236

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Mar.	Puts—Last Dec.	Puts—Last Mar.
88	7.49	8.00	0.01	1.06
90	5.53	6.35	0.05	1.41
92	4.02	5.16	0.18	2.22
94	2.32	4.07	0.48	3.13
96	1.22	3.10	1.38	4.16
98	0.40	2.24	2.56	5.30
100	0.16	1.48	4.32	6.54
102	0.05	1.17	6.21	8.23

Estimated volume total, Calls 50, Puts 47. Previous day's open int. Calls 717, Puts 1117

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Mar.	Puts—Last Dec.	Puts—Last Mar.
1525	8.50	12.74	1.50	2.74
1550	6.75	11.03	2.25	3.53
1575	5.22	9.46	3.22	4.46
1600	3.94	8.04	4.44	5.54
1625	2.98	6.77	5.88	6.77
1650	2.05	5.65	7.55	8.15
1675	1.42	4.66	9.42	9.66
1700	0.95	3.81	11.45	11.31

Estimated volume total, Calls 6, Puts 14. Previous day's open int. Calls 273, Puts 274

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Nov.	Puts—Last Dec.	Jan.	Mar.
1.30	11.10	11.10	11.10	11.10	—	[illegible]	[illegible]	[illegible]
1.35	6.10	6.10	6.10	6.10	[illegible]	[illegible]	[illegible]	[illegible]
1.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.55	—	0.01	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.60	—	—	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 725 Puts 100. Previous day's open int. Calls 1,871 Puts 3,009

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Puts—Last Nov.	Dec.	Jan.	Mar.
1.35	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: Calls 2,278, Puts 962. Volume: 14

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

Strike Price	Calls—Last Nov.	Dec.	Jan.	Mar.	Puts—Last Nov.	Dec.	Jan.	Mar.
1.30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.35	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: Calls 42,722 Puts 86,848. Previous day's volume, Calls 295 Puts 575

LIFFE—EURODOLLAR OPTIONS

$1m points of 100%

Strike Price	Calls—Last Dec.	Mar.	June	Sept.	Puts—Last Dec.	Mar.	June	Sept.
93.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
93.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
93.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
93.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
94.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
94.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
94.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: Calls 1,273 Puts 1,689. Estimated volume, Calls 0 Puts 0

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%	Close	High	Low	Prev.
Dec.	109-24	110-15	109-18	109-14
March	109-27	—	—	109-17
June	109-27	—	—	109-17

Est. volume 10,468 (18,401). Previous day's open int. 15,887 (15,131). Basis quote (clean cash price of 13% Treasury 2004/08 less equivalent price of near futures contract) −4 to 4 (32nds).

10% NOTIONAL SHORT GILT £100,000 64ths of 100%	Close	High	Low	Prev.
Dec.	95-60	96-16	95-58	96-00
March	95-60	—	—	96-00

Est. Volume 265 (44). Previous day's open int. 1,100 (1,100)

THREE-MONTH STERLING £500,000 points of 100%	Close	High	Low	Prev.
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]

Est. Volume 5,370 (6,676). Previous day's open int. 13,586 (13,610)

FT-SE 100 INDEX £25 per full index point	Close	High	Low	Prev.
Dec.	159.50	160.25	159.00	158.35
March	162.50	—	—	161.35

Estimated volume 492 (427). Previous day's open int. 2,795 (2,775)

THREE-MONTH EURODOLLAR $1m points of 100%	Close	High	Low	Prev.
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]	[illegible]
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume 2,563 (6,617). Previous day's open int. 25,861 (26,067)

U.S. TREASURY BONDS 8% $100,000 32nds of 100%	Close	High	Low	Prev.
Dec.	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]

Estimated Volume 3,829 (8,717). Previous day's open int. 6,335 (6,237)

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4130	1.4069	1.3947	1.3774	1.3495

IMM—STERLING $s per £	Close	High	Low	Prev
Dec.	1.4050	1.4065	1.3990	1.4130
Mar.	1.3875	1.3870	1.3780	1.3955
June	1.3715	1.3710	—	1.3795
Sept.	1.3580	—	1.3550	1.3660

Est. volume [illegible]. Previous day's open int. [illegible]

LIFFE—STERLING £25,000 $ per £	Close	High	Low	Prev
Dec.	1.4050	1.4125	1.4003	1.4130
Mar.	1.3855	—	—	1.3950
June	1.3675	—	—	1.3785

Estimated volume 413 (2). Previous day's open int. 913 (944)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%	Close	High	Low	Prev
Dec.	96-07	96-25	95-26	96-09
March	95-09	95-24	94-28	95-12
June	94-09	95-03	93-30	94-12
Sept.	93-10	93-24	92-30	93-13
Dec.	92-13	92-28	92-03	92-17
March	91-21	—	—	91-24
June	90-19	—	—	90-31
Sept.	89-29	—	—	90-08
Dec.	89-09	—	—	89-14
March	88-21	—	—	88-84
June	88-07	—	—	88-19

U.S. TREASURY BILLS (IMM) $1m points of 100%	Close	High	Low	Prev.
Dec.	94.78	94.81	94.76	94.81
March	94.76	94.81	94.76	94.81
June	94.61	94.65	94.61	94.66
Sept.	94.35	94.39	94.35	94.39
Dec.	93.98	94.02	94.00	94.04
March	93.61	93.65	93.63	93.67
June	93.26	93.31	93.28	93.32

CERT. DEPOSIT (IMM) $1m points of 100%	Close	High	Low	Prev.
Sept.	93.78	—	—	93.85
Dec.	94.38	—	—	94.43

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%	Close	High	Low	Prev.
Dec.	93.99	94.04	93.95	94.04
March	93.91	93.99	93.91	93.97
June	93.71	93.77	93.71	93.78
Sept.	93.40	93.47	93.40	93.47
Dec.	93.01	93.08	93.01	93.08
March	92.60	92.67	92.61	92.68
June	92.21	92.28	92.21	92.29
Sept.	91.83	91.90	91.81	91.90

FINANCIAL FUTURES

Liffe looks to Big Bang boost

TRADING ON the London International Financial Futures Exchange will almost certainly be boosted by Big Bang, which in case anyone has not noticed, begins in the City today.

UK clearing bank base lending rate 11 per cent since October 15

Traders on Liffe are hoping for a doubling or perhaps trebling of business because of increased volume and volatility in the cash gilt market. Short-dated gilt futures, which traded a mere 285 contracts on Friday, and have generally been sadly neglected, are expected to benefit, but the greatest increase will be in long gilt futures, although opinions vary about how soon this will happen.

Trading during the trial period in the gilt market, using ficticious prices has been hectic, but many dealers are not expecting equal activity today. Systems are only partly tested in many cases, and a softly softly approach seems only prudent. The cash market is likely to be very cautious, with dealers taking very great care over quoting prices.

A dealer at one of the large traders in both the cash and futures market said on Friday that he expected it to take two weeks before volume picked up to the levels before the Big Bang. He added that there will be a need for institutional investors to build up a trust with any particular market maker.

Volatility in the long term gilt futures contract has encouraged speculators into the market, because of the opportunity for bigger profits. This is partly because of the approach of Big Bang, but also because of nervousness about the UK economy and the value of the pound.

Volume in the contract has picked up from about 5,000 to 8,000 contracts a day two months ago, to around 11,000 to 19,000.

Some traders hope 20,000 will be touched today, but more cautious voices suggest a fall to perhaps 8,000 to 10,000 contracts, building up again within the next few weeks, and perhaps soon touching record levels.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct. 24) 3 months U.S. dollars		6 months U.S. dollars	
bid 5 13/16	Offer 6 1/16	bid 5 13/16	Offer 6 1/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Oct. 24	Oct. 17		Oct. 24	Oct. 17
Bills on offer	£100m	£100m	Top accepted rate of discount	10.6692%	10.7093%
Total of applications	£503m	577.5m	Average rate of discount	10.6349%	10.6928%
Total allocated	£100m	£100m	Average yield	10.94%	10.99%
Minimum accepted bid	£97.34	£97.33	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	6%	53%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Oct. 24	change		Oct. 24	change
LONDON			**NEW YORK**		
Base rates	11	Unch'd	Prime rates	7½	Unch'd
7 day interbank	11 1/16	+1/16	Federal Funds	5⅞	+⅛
3 month interbank	11¼	−1/16	3 Mth. Treasury Bills	5.40	+0.03
Treasury Bill Tender	10.6349	0.0579	6 Mth. Treasury Bills	5.55	Unch'd
Band 1 Bills	10⅞	Unch'd	3 Mth. C D	5.80	+0.15
Band 2 Bills	10 13/16	Unch'd	**FRANKFURT**		
Band 3 Bills	10¾	Unch'd	Lombard	5.5	Unch'd
Band 4 Bills	10 11/16	Unch'd	One mth. Interbank	4.550	+0.025
3 Mth. Treasury Bill	10¾	−½	Three month	4.575	+0.050
1 Mth. Bank Bills	10 15/16	−¼	**PARIS**		
3 Mth. Bank Bills	10 13/16	−1/16	Intervention Rate	7.00	Unch'd
TOKYO			One mth. Interbank	7⅛	−⅛
One months Bills	4.65375	+0.06	Three month	7 1/16	−1/16
Three months Bills	4.84375	Unch'd	**MILAN**		
BRUSSELS			One month	11	Unch'd
One month	7⅛	−⅛	Three month	11 3/16	+1/16
Three month	7 1/16	Unch'd	**DUBLIN**		
AMSTERDAM			One month	13⅛	Unch'd
One month	5 5/16	+⅛	Three month	13⅞	−⅜
Three month	5 5/16	+1/16			

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

NEW YORK (4 pm)

Prime rate	7½
Broker loan rate	6¾
Fed. funds	5⅞
Fed. funds at intervention	—

Treasury Bills and Bonds

One month	5.17	Three year	6.61
Two month	5.19	Four year	6.82
Three month	5.42	Five year	6.89
Six month	5.59	Seven year	7.27
One year	5.79	10 year	7.47
Two year	6.34	30 year	7.77

Oct. 24	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.45-4.55	4.50-4.60	4.50-4.60	4.50-4.65	4.50-4.65	5.5
Paris	7	7 1/16-7 3/16	7 1/16-7 3/16	7⅜-7½	7 3/16-7 5/16	7
Zurich	⅞-1⅛	3¼-3½	—	4-4⅛	—	—
Amsterdam	5½-5⅝	5⅜-5½	—	5⅜-5½	—	—
Tokyo	4.40625	4.65375	—	4.84375	—	—
Milan	10¾-11⅛	10¾-11⅛	—	11-11⅛	—	—
Brussels	8.25	7 1/16-7 3/16	—	7⅜-7½	—	—
Dublin	12⅛-12⅜	13⅝-13⅞	13¾-14	13¾-14	13¾-14	—

LONDON MONEY RATES

Oct. 24	Overnight	7 days notice	Month	Three Months	Six Months	One Year
Interbank	12-10½	11⅞-11	11⅛-11⅛	11 3/16-11¼	11⅛-11¼	11 5/16-11⅛
Sterling CDs	—	—	11 3/16-11 1/16	11¼-11⅛	11 3/16-11 1/16	11⅛-11
Local Authority Deposits	11-10 13/16	11-10¾	11 1/16-11	11⅛-11⅛	11¼-11⅛	11 5/16-11 3/16
Local Authority Bonds	—	—	11 1/16	11½	11½	11 5/16
Discount Market Deposits	11-9½	10⅞-10⅝	10¾	10¾	—	—
Company Deposits	—	11⅛	11⅛	11 3/16	11 3/16	11⅛
Finance House Deposits	—	—	11 1/16	11 3/16	11 3/16	11 5/16
Treasury Bills (Buy)	—	—	10 15/16	10¾	—	—
Bank Bills (Buy)	—	—	10 15/16	10 13/16	10¾	—
Fine Trade Bills (Buy)	—	—	11 13/16	11 1/16	11⅛	—
Dollar CDs	—	—	5.90-5.85	5.90-5.85	5.90-5.85	6.05-6.00
SDR Linked Deposits	—	—	6⅛-6⅛	6½-6⅛	6½-6¼	6 9/16-6 7/16
ECU Linked Deposits	—	—	7½-7⅜	7 5/16-7 3/16	7 5/16-7 3/16	7½-7⅜

Treasury Bills (sell); one-month 10 13/16 per cent; three-months 10⅝ per cent; Bank Bills (sell): one-month 10 13/16 per cent; three months 10 11/16 per cent; Treasury Bills; Average tender rate of discount 10.6928 p.c. ECGD Fixed Finance Scheme IV reference date September 3 to October 7 (inclusive): 10.355 per cent. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10 per cent from October 1, 1986: Bank Deposit Rates for sums at seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 11 per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-12 months 11 per cent; Under £100,000 11 per cent from October 16. Deposits held under Series 5 11 per cent. Deposits withdrawn for cash 5½ per cent.

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FINANCIAL TIMES SURVEY

Monday October 27 1986

This survey is an integral part of the Financial Times and is not for sale separately.

THE CITY REVOLUTION

Today's Big Bang changes the London securities market irrevocably. The prize within the City's grasp is the leading position in the European time zone in a seamless market extending around the world.

NOBODY HAS ever come forward to claim the credit for coining the phrase "Big Bang," perhaps because it is an inelegant way of describing the process of deregulation. But it has stuck, because although there have been several intermediate "little bangs" since the Stock Exchange embarked upon the path of rapid reform some three years ago, it is the dramatic structural changes scheduled for October 27, 1986, which have always captured the imagination.

Yet since the historic Parkinson-Goodison deal in July 1983, and the realisation soon afterwards that the structure of the market would have to be transformed, the perception of Big Bang has subtly changed.

Originally the debate was about the need to bring competition into the Stock Exchange, with the focus on its scales of fixed minimum commissions. But more recently the emphasis has been on the scope for London to capture a leading role in the burgeoning global securities market.

That change of emphasis has had a tremendous impact. Only a few years ago the Stock Exchange was fiercely resisting the attempts by the Government to interfere in its rule-book. It regarded itself as a private club.

Now, however, the exchange has thrown its membership lists open to the world. Even more astonishingly, it has agreed to merge with Isro, a body representing the once distrusted Eurobond houses, because it sees that as being the only way to ensure that the exchange is plugged securely into the global securities market network.

The prize for London is the leading position in the European time zone in a seamless market that swings from Tokyo and other far eastern centres in the morning through Europe and on to New York. This market is well established in US Treasury bonds, and is becoming important for several hundred leading equities of international grade.

If London can capture the secondary market, then it will also be well-placed to attract the fees, commissions and trading profits that go with primary market financing.

London has already gained a leading time-zone position in the banking markets, of course. But these are hard times for international bankers, with few new creditworthy customers to be found, and many old ones on the sick list.

In pitching for the international securities business, London has the advantages of the native English language, a sophisticated cultural environment and good (and relatively cheap) international telecommunications. Such attributes keep the Americans, and a good many others, happy.

But in truth, there is really no contest. Apart from Amsterdam, which suffers from having too small a domestic base, continental centres have hardly been in the picture.

This is partly because they are often constrained by internal rigidities. More fundamentally, however, the idea of a free-wheeling financial centre is not to continental tastes.

Continental financial markets have been constrained to serve industry or finance governments, and tight regulation has been part of this framework. The idea that a financial centre could be a self-standing economic unit, creating jobs and earning foreign exchange, is not widely shared: rightly or wrongly, the dangers of conflict are seen to be great.

Nevertheless, the impact of London is causing significant changes in continental attitudes, as London securities firms attract substantial volumes of business in European equities, especially those of Germany and Scandinavia. Longer trading hours and new bourse structures are being introduced in several countries.

The City of London has still to face the possible political backlash from its current success. But already New York-style salaries, and the sucking of scarce talent from its ailing economic hinterland, have created respectively outrage and distress, not to mention envy.

A future Labour government would be unlikely to reimpose foreign exchange controls in a way that would seriously cramp the City's style, but it might well impose income taxes at 70 or 80 per cent. At a time when the top US domestic income tax rate is being cut to 28 per cent, that might be an effective way of curbing the City's ambitions by causing a brain drain.

Arguably, however, the City of London is giving the rest of the sluggish British economy some lessons in adaptability, innovation and sheer hard work and commitment. The lifestyle of securities market practitioners is much more like that of Americans than of traditional British professionals.

For example, citizens of the Surrey stockbroker-belt town of Haslemere have just prevailed on British Rail to schedule a new train, the 6.44 to Waterloo, because the 7.15 already timetabled was not early enough. Previously, such trains were reserved for cleaners and security guards rather than City stockbrokers.

In this respect, the securities markets are following in the footsteps of the credit and foreign exchange markets, which have long been in the habit of opening at 8 am. This is because the continent of Europe, inconveniently, sets its clocks an hour ahead of the UK.

Readiness to embrace rapid change is also reflected in the huge quantities of the very latest technology that have been installed in the trading rooms of the Square Mile in the past few months. Brokers and traders, used to working with equipment no more complex than a telephone and a dealing book, have had to come to terms with banks of screens and a wide selection of databases and communications devices.

It has to be said that the flexibility shown by securities market practitioners has only been forthcoming by virtue of enormous financial incentives. In the process, the cost base of the securities markets has been raised sharply, to the extent that only large increases in the volume of trading can justify all the investment.

Nervous markets, in both gilt-edged and equities, ahead of Big Bang have prompted fears that the long bull market may be ending, and that a bear phase could put added pressure on the top-heavy structure. Certainly, a great deal will depend on the degree of flexibility that London's new securities firms have been able to build into their remuneration.

And there are bound to be major reshuffles of people over the next year or two, as the 1,000-or-so ex-partners, now locked in by "golden handcuff" arrangements, regain their freedom to seek more congenial positions with other firms—or perhaps to retire to the country.

At the same time, the continuing boom in the Euromarkets—which has nothing to do with Big Bang—is a reminder that international opportunities exist which could more than make up for any setbacks in London's domestic markets.

Yet there is real concern that the open-door policy, which has encouraged banks and securities groups from all around the world to seize opportunities rarely available elsewhere, has generated far too much capacity in London. Such over-capacity will be self-correcting, but the process could be extremely uncomfortable.

Meanwhile, in London, and around the world, securities market regulators are struggling to keep up with the pace of events. The next few years could bring severe problems for the supervisory agencies, not least in the UK where self-regulatory traditions now have to be made relevant to the problem of controlling the activities of global financial conglomerates.

It would scarcely be surprising if deregulation were to be followed by at least partial re-regulation. But the technology-driven advance towards an international market place is so strong that it is impossible to see the old barriers being reinstated.

Today's Big Bang is far from being an isolated phenomenon: it follows a series of other changes, and there will be further important developments in the future, including the merger with Isro and the progressive introduction of computerised auto-execution for small bargains.

But Big Bang is the event which guarantees that nothing in the London securities markets will ever be quite the same again.

Barry Riley
Financial Editor

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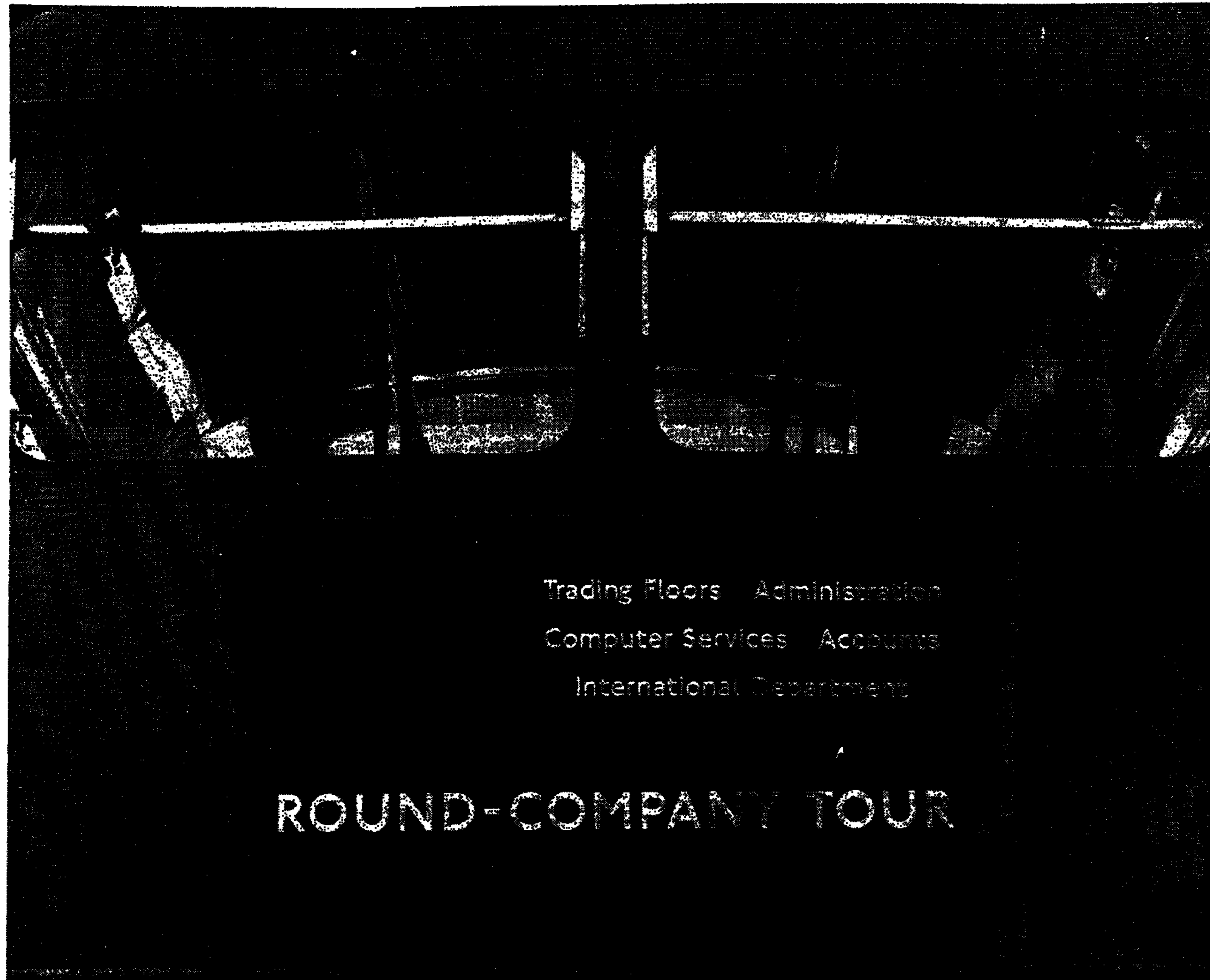
IS THIS HOW YOU SEE YOUR COMPANY?



The lack of large vacant buildings in the City has forced company after company to divide its operations into a series of offices, often scattered all over the square mile and beyond.

Needless to say this presents all kinds of problems, as communication and co-operation between different departments becomes more and more difficult and time consuming.

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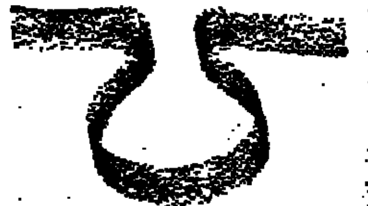

To find out more, phone Scott Lowry of the Canary Wharf Development Company on 01-629 8878.

It makes sense to go round the bend.

The Stock Exchange played for time when its rulebook was challenged on grounds of possible restrictive practice. But events at home and worldwide, as well as the march of technology, were shaping in a way that would make legal action unnecessary. BARRY RILEY retraces the path towards today's explosion in the City.

How the OFT challenge was bypassed

OSTENSIBLY IT was an initiative by a government official that triggered the upheavals which have led to the stock market's Big Bang.

In 1976 Sir Gordon Borrie, then as now the Director-General of the Office of Fair Trading, gave notice that he intended to challenge the Stock Exchange's rule-book on public interest grounds in the Restrictive Practices Court.

His move followed the extension of the OFT's powers in 1976 to include service industries as well as the manufacturing sector. The Stock Exchange dug in its heels and played for time, in the knowledge that the case would take years to come to court.

But there were other important factors at work. On May 1, 1975—the famous May Day—the New York Stock Exchange had abandoned fixed commissions. Where New York led, London might one day be forced to follow.

Rapid advances in communications technology were an important factor in accelerating the rate of development of international business. After New York's initial shakeout, a number of large, highly profitable investment banks emerged and began to flex their muscles.

London was an obvious place for them to expand in, and their opportunities increased rapidly after the UK's exchange controls were abandoned in 1979.

International markets such as that in South African gold shares drifted out of the reach of London firms which were trapped within London's rule-book and were uncompetitive. New York trading in the American Depositary Receipts of leading British equities began to assume significant proportions.

And London firms wishing to expand abroad found that they faced serious regulatory obstacles when trading British securities.

Meanwhile, at home, the shift of power into the hands of big institutional investors was causing a number of London's firms to merge. Most seriously, the number of jobbers (market makers), shrank, reducing competition.

The concentration was especially marked in gilt-edged, where two jobbers, Wedd Durlacher and Akroyd & Smithers, controlled 80 per cent of the market.

The Bank of England did not like this. Nor was it happy about the Stock Exchange's unwillingness to take part in the development of the City of London as an international financial centre. The fast-growing Eurobond market was almost entirely in the hands of foreigners, mostly Americans.

With the court case hanging over it, the Stock Exchange was virtually paralysed in the early 1980s. Any changes in its rule-book to meet the rapidly changing requirements of the market place might have undermined its defence. Nevertheless, in 1982 member firms were permitted to sell 29.9 per cent of their equity to single outside investors, compared with only 10 per cent up to that point.

The case was due to come to the court in 1984, but concern grew in the exchange's council that the action might be lost.

An increasing minority of exchange members in the bigger, more agressive firms were not even sure that the case should be defended. They were concerned that international opportunities were being missed.

By the spring of 1983 talks were going on between the Stock Exchange, the Bank of England and Lord Cockfield, the Trade Secretary. But it was only after the June general election that Lord Cockfield's successor, Mr Cecil Parkinson, entered negotiations to do a deal with Sir Nicholas Goodison, the exchange's chairman.

The deal was that the exchange would scrap its fixed commission scale within 3½ years — before the end of 1986. Initially this was greeted as a tame sellout by the Government, but it soon became apparent that the old Stock Exchange club was being split wide open.

To begin with a gradual dismantling of commissions was discussed but on consideration this was ruled to be impracticable. There would be too many leakages and abuses. The changes had to happen all at once — a Big Bang.

Almost all the big firms rushed to fix up alliances with outside backers, mainly British and foreign banks which jumped eagerly at the opportunity to enter one of the world's top three national securities markets.

The deals were usually agreed on the basis of 29.9 per cent down, the rest when allowed later after relaxation in the exchange's rules.

A process of change which might have been agonising for the big firms was lubricated by the astonishing sums which the banks were willing to pay. The top price for a broking firm was just over £100m for James Capel by Hongkong and Shanghai Banking Corporation.

This was marvellous for partners of the big firms, but created resentment amongst juniors in those firms and amongst the thousands of Stock Exchange members who were in small firms or traded as sole practitioners.

A backlash developed, reflecting the views of these smaller time brokers who feared for their future once the Stock Exchange cartel was broken up and the banks were let into what had been a privileged preserve.

This resentment had an important impact in June 1985 when members voted on key proposals to facilitate the Big Bang changes.

Approval was given to the 100 per cent outside ownership of member firms, but complex plans to change the exchange's constitution and allow effective control to pass to the big banks and securities groups failed to get a sufficient majority. (Another attempt at constitutional reform is likely to be made in 1987.)

Meanwhile, a series of little bangs was being initiated, leading up to the final Big Bang which was fixed for October 27, 1986.

In mid-1984 member firms were allowed to operate on a dual capacity basis, with negotiated commissions, in internationa1 equities.

In March, 1986 the 100 per cent ownership rules were implemented, and entry terms for new member firms were agreed. The London Stock Exchange held a Press conference to welcome Merrill Lynch and Nomura International, respectively the biggest American and Japanese securities groups, as member firms.

The new gilt-edged market making firms were limbering up, but were required to pass part of their business through the existing gilt-edged jobbers. As a transitional step the market in "bulldogs," or non-UK government fixed income sterling bonds, went over to a dual capacity basis in July.

As October neared, attention focused on longer term regulatory questions. The Financial Services Bill, which had been going through parliament for most of the year, proposed a new regulatory framework for the investment industry. The Stock Exchange would become just one of a number of self-regulatory organisations reporting to the new Securities and Investments Board.

The Stock Exchange faced the need to come to terms with the challenge of Isre, a body representing international securities dealers. In September a merger was proposed.

Big Bang would not be the end of the process of radical change in London's securities markets.

Key dates leading up to Big Bang

1908	Enforcement of single capacity.
1912	Fixed scale of minimum commissions.
1975	"Mayday" deregulation at New York Stock Exchange.
1976	OFT commences action against Stock Exchange rulebook.
1979	UK exchange controls lifted.
1982	Outsiders permitted to hold single block of 29.9 per cent in member firm, rather than 10 per cent.
1983 (July)	Deal between Stock Exchange and Government leads to withdrawal of the Restrictive Practices Court suit.
1983-1984	The big brokers and jobbers choose their partners.
1984	Dual capacity in foreign equities.
1985 (May)	Deadline for applications by new gilt-edged market makers.
(Jun)	Stock Exchange members approve 100 per cent outside membership of firms, but constitutional reforms gain insufficient support.
1986 (Mar)	100 per cent outside ownership permitted. New firms admitted.
(May)	Draft of new conduct of business rules.
(Aug)	Dual capacity in "bulldogs."
(Sep)	Merger with Isro proposed.
(Oct)	Dual capacity in gilt-edged and equities. Commissions negotiable.

Signposts from New York

Wall Street's Mayday abolition of fixed commission rates was followed by a huge rise in trading, spurred on by advances in technology. UK firms are counting on a similar trend. RICHARD LAMBERT provides a checklist of possible implications for London of the New York experience.

MAY 1, 1975: "Mayday" on the New York Stock Exchange, when fixed commission rates were abolished and the character of the US securities market was changed for ever. The story of that upheaval has been a subject of intense interest in London during the past couple of years, and the conclusions which have been drawn from it have played a big part in the reshaping of Britain's securities industry.

Here is a check-list of some of the main points, together with their possible implications for the UK.

Price Cutting

Commission rates after Mayday fell much further than anyone imagined at the time, and 11 years later the ripples are still being felt. A few days before the event, Goldman Sachs tried to establish a price lead by announcing that it would cut its rates on institutional trades by 8 per cent. Other firms indicated that they, too, would adopt a "responsible" line.

Yet, by the end of the month, rates on the big institutional deals were down by a quarter, and they continued to fall steeply for the next couple of years, before bottoming out for a period at an average discount of nearly 40 per cent.

More recently, rates have fallen yet again. In 1983, according to the Securities Industry Association, total commission revenues represented 0.67 per cent of the total value of US equities traded. Last year, that ratio was down to just 0.5 per cent.

The reductions in commissions have been heavily concentrated on the large, institutional trades. Commissions for private investors have actually risen on small, odd-lot transactions. This has given rise to a whole new industry—the no-frills discount brokers.

The consensus view in the UK is that heavy rate cutting will largely be confined to business in long dated government securities, and that institutions will not be all that interested in price competition on equities. This could turn out to be wishful thinking.

Diversification

The fall in margins on traditional agency business has led US brokers to develop new lines of activity. Whereas a typical Wall Street firm might have offered, say, a dozen products or services in the early 1970s, the figure today could be nearer 100.

Back in 1976, 55 per cent of the US industry's revenues came from commissions. Last year, commission dollars contributed only 21 per cent to the total revenue pie.

Instead, firms have increasingly dedicated themselves to risk-taking on their own accounts. They cover a broad range of activities, from taking a principal position in trading over-the-counter securities to running sophisticated options programmes. The big money is to be found in trading debt, which last year was the most important single source of income for the industry, bringing in nearly 19 per cent of the total revenue.

Blue-blooded investment banks used to turn up their noses at trading activities. Now the traders are in charge.

One reason is that trading has become one of the keys to success in another important growth area—the origination and underwriting side. This is because primary issuing activities depend increasingly on a firm's ability to trade paper in the secondary markets. These investment-banking type operations accounted for 11 per cent of securities industry revenues in 1985.

Yet there seem to be limits to successful diversification. Some very well known names have burned their fingers badly in the attempt to become all things to all men: one-stop shopping, it seems, is an expensive service to offer the public, whatever your line of business.

The pre-tax profit margins of the giant full-line firms has fallen from 10.9 to 5.6 per cent since 1980. In contrast, the large investment banks last year earned a fat 14.6 per cent pre-tax.

UK broking firms and merchant banks have had very little experience in risk taking, their main interest having been on the agency and advisory side. Tomorrow's winners are likely to need very different skills.

Capital

Firms which take bigger risks require bigger lumps of risk capital. The capital base of the member firm of the New York Stock Exchange was just $3.7bn in 1975. By 1980, this figure had climbed to $6.8bn, and it fairly shot ahead during the next five years to more than $22bn.

This has been made possible by the extraordinary profitability of the US securities industry for most of the past decade. The overall return on equity after tax averaged 15.9 per cent in 1985, a figure which was substantially exceeded in four out of the five preceding years.

These returns have enabled firms to build up a high level of retentions within their business. They have also attracted powerful newcomers, like Prudential, Sears or American Express. And they have allowed securities firms to issue shares to the public on favourable terms. Last year alone brought eight new issue of stock through public underwritings or private placements.

UK firms have very much taken their message to heart. On Wall Street, new capital did not start to flood in until a few years after Mayday. In London, by contrast, stock exchange firms have been substantially recapitalised well before the new system has taken effect. This new investment is likely to change the competitive position beyond recognition.

Concentration

Not all firms have had equal access to capital. One of the striking features of the US scene has been the concentration of market power around the big battalions. The 10 biggest firms now account for some 63 per cent of total industry capital, up from 46 per cent in 1980.

When fixed commission rates were phased out, the losers included firms which had devoted their resources to research activities rather than to efficient execution services. Groups like Merrill Lynch substantially expanded their research activities, putting a fierce squeeze on research boutiques which had hoped that clients would be willing to pay a premium price in return for the quality of their advice. Lots of well known names went out of business altogether.

Other firms sought salvation in different ways. One of the most successful was Shearson Lehman, which built itself on the back of more that 30 once independent firms. Acquisitions bought it market share, and after each deal expenses were ruthlessly pruned back so as to improve the overall return. The trick was to squeeze more volume through the same overhead.

As a result of these waves of merger activity, the list of top 10 firms by capital ranking has been transformed since 1975.

Although there have already been many takeovers within the UK securities industry, these have mainly resulted in regroupings, rather than in rationalisation. The betting must be that there is more to come, especially in the ever-populated government securities market.

Volume

Reported share volume on the New York Stock Exchange in 1975 came to 4.7bn shares, and the busiest day of the year saw 35m shares traded. In recent weeks, more than 240m shares have been traded on a single day, and total volume in 1985 came to 27.5bn shares.

Advances in technology have played a big part in making this increase possible. So has the development of new markets for trading in risks — the financial futures and traded options exchanges — which have tended to boost turnover in the underlying securities.

In addition, Mayday occurred quite close to the bottom of the worst bear market in recent memory, and US share prices since then have generally been on an upward trend. Bull markets are always good for business.

However, it also seems reasonable to assume that the steep fall in the cost of doing business has played an important part in this extraordinary rise in trading volume.

UK firms are counting on a similar trend emerging in London. Since their profit margins seem bound to fall, the only way of servicing their much increased capital base will be through very much higher levels of business volume.

Institutional activity

Although the number of individual shareholders has risen in the US since Mayday, institutions have come to dominate day-to-day trading activities in the markets. This shows itself in all sorts of ways.

For instance, look at block trading — transactions involving 10,000 or more shares. The number of these deals on the New York Stock Exchange rose from 34,000, in 1975, to 539,000 in 1985 — up from 17 per cent of total business to nearly 52 per cent. The average size of bargain climbed from 495 shares to 1,878 shares over the same period.

The institutions have become increasingly active in the management of their portfolios. The reported share volume traded in New York during 1975 represented 21 per cent of the total number of listed shares outstanding in the period. By 1985, this turnover rate had climbed to 54 per cent, a level not seen since the wildly speculative days of the 1920s.

UK companies already complain that their institutional shareholders are much too trigger-happy. If New York provides any kind of precedent, they ain't seen nothing yet.

Skilful lobbying has been needed by its chairman to set the right climate to carry the Stock Exchange through the most radical change in its history.

Custodian of a strong central marketplace

Hugh Routledge

"IT WAS not," says Sir Nicholas Goodison firmly, "a simple case of a deal between Cecil Parkinson and me in a smoke-filled room. I know that is the myth but it is just not true."

Today's events are the direct result of the bargain struck between Sir Nicholas and the last Secretary of State for Trade and Industry but three, immediately after the Conservative election victory in 1983. But from a vantage point derived from his period of nearly 11 years as chairman of the Stock Exchange, Sir Nicholas is anxious to stress that change had been inevitable for years. The only question at issue in 1983 was about the timing.

"What that deal did was to unleash the ability to reform," he says. "It didn't of itself create reform."

In return for a promise to remove the fixed scale of commissions, the Government agreed to abandon its proposed action against the Stock Exchange in the Restrictive Practices Court. Years later, Sir Nicholas is still bitter about that legal threat, which he insists served to block the process of reform in the Exchange for several critical years.

"The decision in 1983 was very welcome, but it was much too late," he complains. "It should have been taken in the last years of the Labour government, or by John Nott and the incoming Conservatives in 1979."

Still only 52, Sir Nicholas has been obliged to develop lobbying skills of a high order to manage relationships with Government and his own members. A tall, softly spoken man, he has on occasion in the past three years appeared drained and exhausted at the strain of leading the Stock Exchange through the most radical period of change in its history. There have been setbacks—for instance, when members voted down an important constitutional change a year ago. And he has his critics, who have accused him (usually anonymously) of being on the side of the big battalions: of being aloof or even indifferent to the real anxiety of some smaller firms.

But there is no denying the scale of his achievements. Under his leadership, one of the most conservative institutions in the land has voluntarily undertaken a series of violent reforms, which will affect its different members in very different ways. The senior partner of Megabuck International has no more votes than the man who runs Backwoods Brokers in Bournemouth, and they have both had to be led along more or less together.

Sir Nicholas's overriding and often-repeated goal throughout has been to preserve a strong central marketplace in London, something which he believes is vital to the interests of investors and to the process of capital formation in the UK. This he has pursued with a determination that belies his rather languid public manner.

"Let us not forget that there are two keys to the changes that are taking place," he argues. "One is the increasingly international nature of the securities business, as companies and investors cross frontiers. The other thing which is crucial is technology."

As Sir Nicholas sees it, these trends posed both a threat and an opportunity to the London exchange. If they had been ignored, business would have drifted away to other, less hide-bound markets. UK investors have already shown that they are only too pleased to buy and sell shares in ICI or BP in New York if they can do it on better terms than in London.

On the other hand, if the trends can be properly exploited, London has a chance of dominating the European capital markets, and of consolidating its position as one of the world's big three financial centres, alongside New York and Tokyo.

"The market will not thrive unless we dismantle the barriers to international business, and unless we have the best technology," he argues.

"The former is a matter of rules—of welcoming into membership everyone who qualifies to do business. That's not a problem. I believe we have already made all the important changes to the rules that are necessary."

As for technology, Sir Nicholas reels off a list of major new projects which are in the offing. One is a small order execution system, into which orders of a modest size will be fed, to be matched by business coming the other way. The idea is that this will hold down the costs of transacting business for private investors. Sir Nicholas hopes something will be achieved here on a timescale of about a year.

Next on his list is a programme to develop a paperless market, cutting out the enormous volume of paperwork involved in the present stock transfer system. This project, which will require changes in legislation, has been given the code name Taurus, the bull, which happens to be his own birth sign.

The third big undertaking is the development of international linkages with other market places. One has already been agreed with the National Association of Securities Dealers in the US, and there will be others.

What will happen to the old fashioned trading floor? Right now, there is great pressure on space as all the market makers jostle for pitches. Looking further ahead, Sir Nicholas concedes the possibility that the introduction of an automatic executions system for small orders could remove much of the role of a trading floor.

"I don't know whether that view is right, and I don't even have a view on whether that would be desirable," he states. "All I believe is that we should provide a trading floor for as long as the traders want one."

But he has no doubt that, starting from today, the Stock Exchange will be working under a set of conventions that are far removed from those of a traditional securities market.

Traders will no longer be obliged to bring their business to central market makers. Instead, they will be governed by the obligation to work for their clients on a best execution basis. Market makers will be required to feed prices into an electronic system, and to stand by them. And all transactions will be fed into the centre for surveillance purposes.

What all this means is that the Stock Exchange at heart will become no more than a set of information systems. But it also has regulatory responsibilities, and here we come to a subject which can ruffle Sir Nicholas's brow.

The Financial Services Bill, shortly to become an Act, will change the character of the Exchange in several key respects. The most important is that its traditional roles will be split into two separate functions: a self regulatory organisation (SRO) supervising its members, and a recognised investment exchange (RIE) operating a market place.

For Sir Nicholas, this is an irritating and unnecessary distinction. He also thinks it has led to misunderstandings about his own view of the Stock Exchange's role.

"For instance, there has been a lot of confusion about my position on the Third Market. I'm not saying that the sponsors of third market companies must be governed by the Stock Exchange as an SRO. What I am saying is that the investment exchange sponsoring the third market must have disciplinary powers over those company sponsors. Otherwise, we could end up with cowboys just coming in to exploit our facilities, and that would be ridiculous."

Sir Nicholas believes that the financial services legislation goes much further in the direction of statutory regulation than was ever imagined at the time of its conception. He is also worried that too many amendments were tabled at the last moment without adequate consideration.

But he says he can live with the legislation, which, in his view, is better than nothing. "I believe there will have to be greater convergence between securities and banking supervision," he adds. "This legislation is not the end of the road."

While some senior figures in the City have been growing increasingly twitchy during the count-down to Big Bang, Sir Nicholas was in a relaxed mood as he served tea on the 22nd floor of the Stock Exchange a few weeks ago. He was absolutely confident that all the new systems were going to do their stuff.

What were the main threats? "A sharp reversal of the trends to wider share ownership; the reimposition of exchange controls; restrictive measures to control profitability or dividends. In other words," and here he smiled politely, "most of the measures that were in place during the last socialist government."

Sir Nicholas says his secret ambition is to have the time and the authority to buy some paintings with which to brighten the upper reaches of the Stock Exchange Tower. But the walls on the 22nd floor remain resolutely blank, and seem likely to stay that way for some little while.

Richard Lambert

Why it's called the Big Bang

The term "Big Bang" was first used to described the theory that the universe was the result of an explosion.

Georges Lemaître's theory was conceived in 1927. He held that the universe was once a single agglomerate mass, which had experienced a cataclysmic explosion, sending fragments flying far and wide.

The expression was first used in relation to the City of London by the chairman of the Stock Exchange, Sir Nicholas Goodison. In September 1983, he wrote to senior partners of member firms, outlining the changes which would take place as a result of his agreement with Mr Cecil Parkinson, then Secretary of State for Trade and Industry.

He asked for their comments about these proposals, and in particular whether they favoured a gradual reduction in commissions during the period leading up to December 1986, or a single specific date on which negotiated rates of commissions would become a fact of life across the board.

The latter idea, he described as the "Big Bang" approach.

The first formal occasion when the words "Big Bang" fell from official lips may well have been the speech by the Governor of the Bank of England, Mr Robin Leigh-Pemberton, to the Stock Exchange Northern Unit conference, in Liverpool, in May 1984.

Thereafter the term passed into everyday use, as a succinct way of referring to deregulation, or the City revolution—to the rumoured regret of some officials, who feel that it implies explosive or even catastrophic change.

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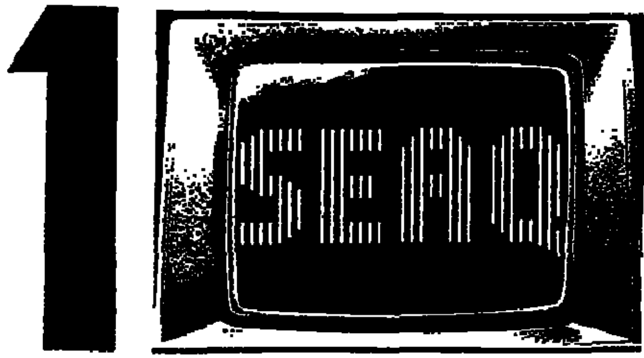


1 THE EQUITY MARKET

London's equity market has traditionally been dominated by the formalities of the trading floor, where jobbers have stood at pitches and brokers have moved around seeking the best bargains. Now, much of the trading is expected to move "upstairs" to high-technology trading rooms.

The new market

How they screened the biggest game

SINCE THE end of September, Stock Exchange market makers have been able to trade "upstairs" in their dealing rooms as well as on the market floor. In so doing, they have demonstrated why technology is so important to the new markets in London.

Any system of competing market makers functions efficiently only if all the participants in the market know the bid and offer prices from all the market makers in any given security and at any given time.

Without this information, market makers have no way of knowing whether business is being transacted elsewhere at prices different from their own.

Furthermore, a broker-dealer trading on behalf of a client would have no way of knowing if he was buying or selling at the best price.

In a distributed market, where physical presence on a market floor is not compulsory, the participants may be separated geographically by significant distances, and only modern telecommunications and computing technologies can move information between the players quickly enough for successful trading.

So, when the council of the Stock Exchange decided that the new markets would be based on a system of competing market makers, it realised that it would have to create a new electronic trading system. Topic, its effective and low-cost viewdata system for price distribution, was simply too limited.

Nevertheless, Topic was itself quite new, and the exchange's technical specialists were well aware of how little time they had to complete the major series of projects which the new system would involve.

The answer was the Stock Exchange Automated Quotation system, or SEAQ, which made the most of what was already in place while adding on sophisticated new facilities.

At the heart of SEAQ is a series of very powerful Digital Equipment VAX supermini computers. These are fed price and trading information by the market makers using terminals (they are actually IBM compatible personal computers) designed by the Stock Exchange information systems division.

Only market makers have these special input terminals; alternatively they can put in their trading information automatically through a telecommunications link between their computer and the SEAQ computers.

This facility is called the Level Three service. Service levels one and two are designed to distribute information to the market as broadly as possible. Level One is described as the investor service. Using traditional low-cost Topic screens — which are simply modified television sets — the investment community outside the Stock Exchange, the institutions and the private clients can see the single best quote for each of the most frequently traded securities.

Level Two is described as the competing quotations service, and is available to exchange members and non-members alike as long as they are Topic subscribers. The service shows competing bid and offer prices from all the registered market makers for all the leading equities.

For the purpose of display on SEAQ, the 3,800 or so securities traded on the exchange are divided into four separate categories: alpha, beta, gamma and delta.

- **Alpha stocks** are the most actively traded, and market makers have to show firm, continuous two-way prices in these stocks. All trades are published immediately on Topic.
- **Beta stocks** are somewhat less actively traded than alphas, but market makers are still required to display continuous two-way prices through SEAQ. Trades, however, are not published immediately.
- **Gamma and Delta stocks** are relatively inactive. The prices shown on Topic may be indicative rather than firm.

It is a problem common to all exchanges aiming for efficient price distribution, but it is technically difficult to create a system which allows prices to be broadcast simultaneously to all participants in the market while allowing the market makers to modify that information as they put in quotes and deals. What the Stock Exchange technicians did was to graft the SEAQ system on to the exchange's existing share database, held on a computer system called Epic.

In the past, information held on Epic was fed out to the market via the Topic computers and Topic screens. In the new system, the SEAQ computers deal with the processing of incoming information from the market makers and transmit Level One data to Epic for distribution over Topic while feeding Level Two data directly to Topic for display on the 10,000-or-so Topic screens in the marketplace.

SEAQ also provides, very significantly, a computer-readable feed of Level Two data, which can be taken directly into firms' in house computer systems.

This is very much the key to success for the bigger brokers. A simple Topic screen can provide all the trading information available from SEAQ, but in a very inflexible way. What the member firms are looking for from their electronics is competitive advantage. Using SEAQ in its simplest form merely leaves them all level-pegging. Hence the importance of that computer-readable feed.

The more technologically-aware brokers have taken that feed and used the information in it to create their own tailored screens of information for distribution to their own dealers. They are able to mix and match trading data straight from SEAQ with figures from other information services—Reuters, Telerate and so on — and their own in-house data feeds and manipulate it in such a way that it becomes a powerful trading tool.

Many senior market experts believe that the eventual loss of the physical market floor could adversely affect market liquidity. Certainly, there is evidence elsewhere that traders feel the thrill of dealing declines with the move from face-to-face contact to the dealing screen.

Tomorrow's dealers, however, may well find as much excitement in the "intelligence" built into their trading systems as their predecessors found in sensing the mood of the market.

SEAQ is only the first stage in automation for the new Stock Market. Actual deals are still carried out over the telephone, but the exchange's information systems division is well advanced with a small-order execution system which it calls SAEF (Small Order Automatic Execution Facility). It could lead to significant economies.

On the settlement side, too, a new system called Taurus is being developed which should do away at least with share certificates in favour of purely electronic records.

With so much depending on the integrity and security of the computers which now underpin the London market, very serious attention has been given to the possibility of computer failure. There are two separate computer sites, one in the Stock Exchange tower and another about a mile away.

There are fibre optic and microwave communication links between the two sites, and the SEAQ computers work in "hot standby"—that is, two computers working in parallel, and sharing the load, each ready to take over if the other should fail.

According to Mr George Hayter, head of the exchange's information systems division, SEAQ cost some £7m to develop, most of which was spent on accommodation, training and market liaison.

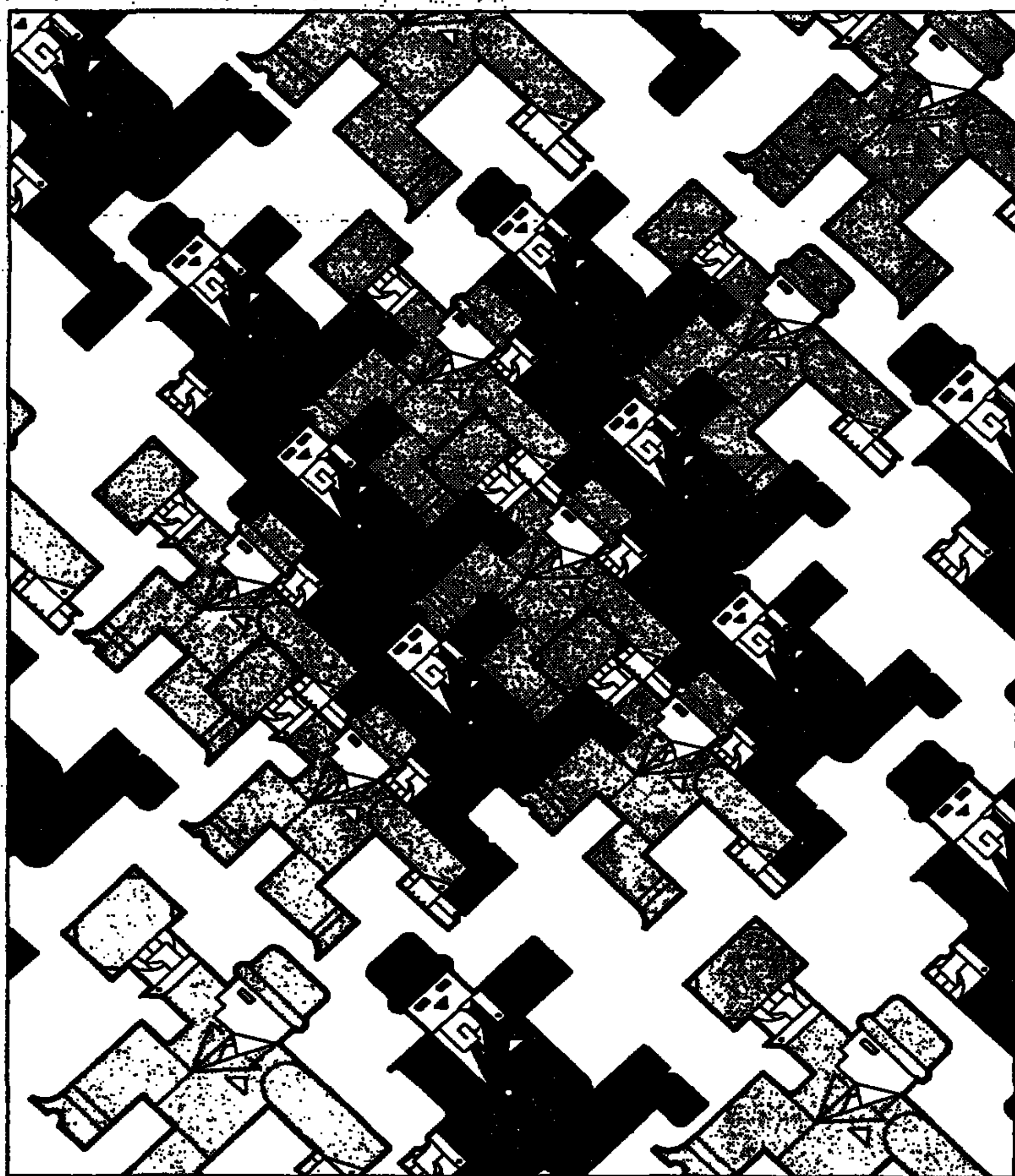
Capital costs directly related to the project came to £3.4m; the new building for the exchange's technical headquarters cost £11m.

Mr Hayter told a conference a few weeks ago: "These figures show we are building the solid foundations and framework of an electronic marketplace of quality, which London will need if it is to play a leading role in the emerging global electronic marketplace. Despite the time pressures associated with Big Bang, you can see we are doing this job properly, soundly and professionally."

Specialists in other exchanges agree. While the pace of change means that no one can expect to hold the lead for long, there is no doubt that, at the moment, London is very much the front runner in electronic trading.

Alan Cane

The Unlisted Securities Market, on the trading floor of the London Exchange... a bleak outlook as competition intensifies



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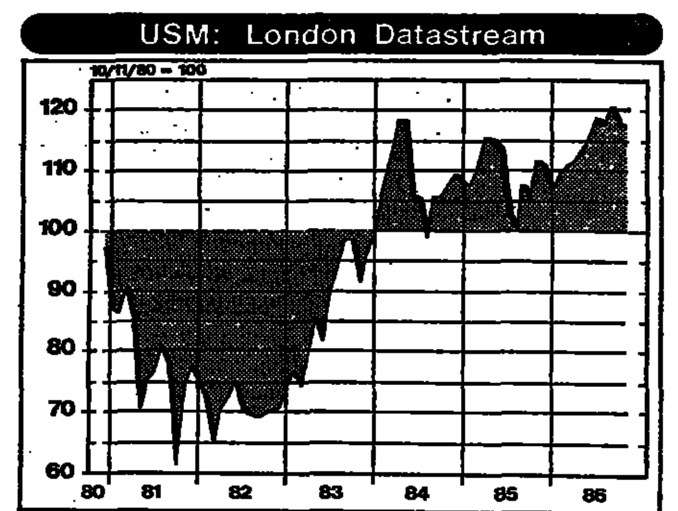
The junior markets

A liquidity test for the smaller exchanges



A YEAR ago the outlook for the junior markets, or junior market as it was then, looked distinctly rosy. The Unlisted Securities Market was approaching its fifth birthday and, with more than 400 flotations under its belt, functioned just as the Stock Exchange had intended, as a market for young, growth-hungry companies.

Today all that has changed. The USM is about to be joined by three other centres of securities trading, which can loosely be called the "junior markets." And the outlook for the USM itself is bleak indeed.

In the aftermath of Big Bang, the USM will face the most challenging period of its short history. As competition intensifies in the City, the securities houses will turn their attention to the larger, more profitable transactions in the shares of the bigger companies, possibly to the detriment of dealings in small companies' shares.

Thus the market in small companies' shares could become increasingly illiquid; the gaps between buying and selling prices will widen; small companies' ratings will fall. This illiquidity problem will apply to shares in all small companies, whether quoted on the main market or the USM. But it is on the USM that small companies are concentrated and where the effects of illiquidity will be most pronounced.

"No one knows exactly how the USM will be affected by Big Bang," said Mr Geoffrey Douglas, head of USM research at the stockbrokers, Hoare Govett. "The USM has always been an illiquid market. Given that so many small companies on it have released such a small proportion of their shares illiquidity was inevitable. But it is possible that after deregulation the illiquidity problem could worsen."

The prospect of illiquidity has already taken its toll on the market. In the approach to Big Bang a succession of companies which looked, superficially, like archetypal USM growth stocks, have leapfrogged over it into the main market. Similarly the efflux of companies graduating from the USM to a full listing has accelerated. Worse still, a number of the institutional investors which have dabbled in USM investment since its earliest days, have withdrawn from the market.

Both the emigre companies and the errant institutions have cited the prospect of illiquidity as their reason for withdrawal. Yet illiquidity is not the only problem confronting the USM. The market also faces the challenge of redefining and reasserting its role as the junior markets fragment.

For, while the USM has been expanding under the aegis of the Stock Exchange, the over-the-counter market in the shares of unquoted companies has been thriving off the Stock Exchange floor.

The OTC market is composed of some 40 licensed securities dealers, all making "mini-markets" in the shares of around 160 companies through dealings conducted by telephone. According to a recent report by the accountants, Peat Marwick Mitchell, the companies trading on the OTC market are now capitalised at £660m.

The growth of so healthy a market off the Stock Exchange floor persuaded the Stock Exchange Council that there would be sufficient demand to merit the creation of another junior market, one which could accommodate dealings in the shares of companies too young and too small to merit quotation on the USM—the Third Market.

After several delays, the Third Market should begin to trade early in the New Year. The Stock Exchange envisages the market as a lightly regulated version of OTC, by trading in which young companies can find their feet; become accustomed to the rigours of public quotation; and from which they can graduate to the USM and thence to the main market.

The theory sounds fine. Whether the Stock Exchange can translate it into practice will be more problematic. Throughout the formation of the Third Market the Stock Exchange Council has attempted to strike the uneasy compromise between imposing a measure of regulation on the rather raffish system that has produced OTC trading, without stifling the entrepreneurial verve that has catalysed the OTC market's growth.

For the larger OTC companies, or for companies that have been deterred from joining the OTC market because of its risqué reputation, the Third Market will offer the advantage of "respectability" bestowed by the Stock Exchange's custodianship. Similarly, investors may be less cautious about investing in Third Market, than in OTC stocks.

Just who will sponsor companies on to the Third Market is far from certain. The Stock Exchange's established members have, so far, been distinctly squiffy in their reactions to it.

The licensed securities dealers, which make up the ranks of the OTC market, are now eligible for Stock Exchange membership, and could thus deal on the Third Market; but they have floated plans for a market of their own—The London Securities Exchange.

The London Securities Exchange is envisaged as a more formalised version of the OTC market, albeit less formal than the Third Market, which would function—in the words of one of its proponents, Mr Tom Wilmot, chairman of Harvard Securities—as "a forum for trading in small companies' shares."

If the London Securities Exchange gets off the ground—and this will pivot as much on imponderables, such as whether the licensed securities dealers can shelve their differences and work together, as on whether the Securities and Investments Board can be prevailed upon to recognise it as a self regulatory organisation—there would be four junior markets in London: the USM, the Third Market, the London Securities Exchange, and the informal OTC market conducted by dealers outside the formalised markets.

"It is ironic really," said Mr Andrew Holland, head of small companies research at County Securities. "The Stock Exchange introduced the Third Market to prevent market fragmentation, and look what has happened. It is difficult to judge whether the Third Market, or the London Securities Exchange can succeed. Certainly, it is difficult to see how trading on these markets could be any less illiquid, easy to see how it could be much more illiquid, than on the USM."

In its report on the USM's first five years, the Bank of England described it as "having established itself as an active, relatively liquid market for the equity of small companies." Will it be able to say the same in five years' time.

Alice Rawsthorn

Stock Exchange Price Collection and Dissemination Activities

At the heart of the new Stock Exchange computer system is the market database held on the Epic machines. This is fed by the SEAQ computer which handles the day's trading on-line and in real time. Market information from SEAQ is fed out through the Topic computer to market makers' and broker-dealers' Topic terminals. SEAQ also provides the all-important computer-readable Marketline service.

Source CAP Financial Services

Market makers

The jobber's task gets even trickier

EQUITY MARKET makers have been awaiting today's commencement of new-style trading with a good deal of anxiety.

Some 35 firms have registered with the Stock Exchange, and although a few of these will only quote prices for a narrow range of stocks, the number of contenders is generally believed to be too high for comfort.

Their predecessors, the jobbers, have already been having a comparatively lean time in the past year or two. While the brokers have grown fat on high volumes and rising prices, the jobbers have often found it hard to cope with the sharp movements of the market. All the signs are that their task will be even more tricky from now on.

The transition from the old single capacity trading has not been easy. In stages, the jobbers have moved into their new trading rooms, and from four weeks ago they were permitted by the Stock Exchange to trade "upstairs" during official market hours. Previously, they had been required to trade only from pitches on the market floor between 9 am and 3.30 pm. But the jobbers have still not been allowed to co-operate with their firms' broking arms until today.

Many of the new integrated securities groups have been doing at least a limited amount of marketmaking in the past few months, either through jobbing firms they have bought or through new jobbing operations they have set up (this second approach has been followed by groups such as Hill Samuel, Scrimgeour Vickers and Phillips & Drew).

At least such firms have been able to train new staff in operational conditions, and they have been able to make sure that their settlement systems are up to scratch. On the other hand, trading conditions after today will be quite different; and several other firms, of which the biggest is probably Kleinwort Grieveson, have decided it would be better to keep their UK equity marketmaking teams on the sidelines until the big day.

It will be perfectly possible for old-style jobbing to be continued after Big Bang, but most practitioners fear that it would prove a very quick way of losing money.

Under the old system jobbers were more or less passive; that is, they responded to approaches by brokers. They were able to make money because spreads between their bid and offer prices were relatively wide, and because all the business of the market was channelled through the floor, where there would be perhaps only two to four major jobbers in each stock.

From now on, there are going to be many more market makers—as many as 20 to 30 in some of the leading "alpha" stocks. Individual market makers are therefore not going to get such a clear picture of the business passing through the market, or being offered to it.

There will be help from innovations such as equity inter-dealer brokers—specialised intermediaries who will enable market makers to trade positions in individual stocks between themselves on an anonymous basis—but they will not provide a complete solution.

It follows that a market maker who responds to an agency broker's approach and takes on a position might do so in ignorance of business flowing elsewhere in the market, except for the limited information which could be gleaned from SEAQ (the Stock Exchange Automated Quotation service) or the IDB screens. It could then be very difficult to unwind that position, except at a loss.

One approach is to reduce the whole scale of expectations of the marketmaking side of the business. Some firms will not be seeking to make significant profits, but will be content so long as any losses are kept within bounds. On this view, marketmaking is simply a facilitative activity, a necessary adjunct to profitable activities elsewhere.

For example, some investment clients will want to trade on the basis of net prices—without separate agency commission—and these transactions will have to be passed through a trading desk; though they will normally be immediately laid off elsewhere in the market.

Other firms, with a substantial corporate activity, will regard their day-to-day trading in the secondary market primarily as a way of gaining knowledge of the characteristics of the various stocks. They will thus be in a position to distribute new issues or large blocks, an activity where real money is to be made. At least, this appears to be a common pattern in the New York market.

But some firms will certainly hope to operate profitably in the secondary market, and it is widely agreed that a highly integrated approach will be required. That is, the market makers, the salesmen and the research analysts will all have to co-operate closely.

Far from being a passive responder to approaches, the market maker in many firms will now be expected to build up positions which can be distributed at a profit. This is a tricky area, because London clients have not been used to this kind of unified trading, and could be offended if they find that a firm's trading book is being unloaded too blatantly.

However, new conventions will have to be established, and quickly. The point is made emphatically by Mr Laurence Heyworth, head of research at Robert Fleming, a firm which has been making dual-capacity markets in equities outside the official exchange for two years, but will now be allowed into the fold.

Originally, Fleming tried to operate as a traditional jobber, but found that did not work. It added on salesmen and analysts and now regards research as an essential direct input to the trading desk. "In our view, this is the only approach consistent with profitability and with the ability to execute clients' business," Mr Heyworth says.

Another approach, especially in the second-liners, the beta and gamma stocks, is to regard market making as part of the service offered to corporate clients. In fact, companies may come to expect this kind of support.

Many smaller companies fear that liquidity in their shares could dry up after Big Bang. It is noteworthy that Cazenove, the leading corporate broker, with around 300 companies on its list, has decided to offer a limited market-making service in the stocks of between 50 and 100 of its second-line clients, with a heavy emphasis on close connections between research, sales and market making. It will not touch alpha stocks, however.

In fact, despite the fears surrounding the liquidity of some of the betas and, especially, gammas, some market makers fear that the real bloodbath will be seen in the alphas, where there will be far too many competitors for anybody to make money.

According to Mr Paul Neild, head of equities at Phillips & Drew, the gammas have already been proving much more profitable for the jobbers in the pre-Big Bang months. "This is the area that people will get out of last," he says.

Over the coming months, many of the 35 equity market makers are likely to have to trim their sails. The successful ones will be cleverer and braver than the rest, or perhaps they will just have deeper pockets.

Certainly they will need to depend upon other parts of their firms to generate business for them. And they will need to diversify their own trading activities, notably into the group of operations known loosely by the Americans as "programme trading"—this includes the purchase by auction, and subsequent break-up and distribution, of large institutional portfolios, and the use of sophisticated futures and options techniques.

The market makers are under no illusions that it could all prove a very bumpy ride.

Barry Riley

After Big Bang, which face will your stockbroker show you?

Will it be the face that's offering a genuine opinion — or the one that's thinking of its own book position?

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BAH

Commissions

Single capacity is not dead

WHEN THE Stock Exchange agreed, back in 1983, to abandon the fixing of commissions, the full implications were not immediately recognised. At first it was hoped that single capacity—the separation of broking and market making—could be retained. But that hope was soon abandoned. The commissions scale, it was quickly realised, was vital to reinforce that separation.

Single capacity was praised at the time, because it provides a built-in protection for investors. The agency broker acts only for his client, and therefore will always seek the best deal.

The alternative of dual capacity, with market makers selling directly to the investor by means of their own distribution system, implies a conflict of interest. The better the price obtained by the investor, the lower the profit of the integrated securities firm which trades off its own book positions.

Of course, a good securities market should offer competition, and the investor can shop around to get the best price. But this *caveat emptor* type of system puts more responsibility on his shoulders.

However, it should be emphasised that the structural changes at the Stock Exchange have not abolished single capacity. It will still be possible to find agency brokers who will never take positions in a stock, but will take the bargain around the market to seek the best execution.

The only difference is that, from now on, the selection will usually be on the basis of prices displayed on a screen rather than verbal quotes from a jobber at his pitch on the exchange's trading floor.

The trouble with the old system was that it provided protection at a price. Commissions were set at a level to suit the least efficient brokers, not the most efficient. And investors paid twice: once in commission, and again in the jobber's spread.

Underneath the fixed commissions umbrella, the brokers tended to compete in other ways. For instance, research would be bundled into the service whether the client wanted it or not. The investor did not really have a choice between a full service with all the trimmings and a stripped-down execution-only service.

What is more, the commissions did not properly reflect the underlying costs of transactions. It costs an agency broker very little more to transact a £1m bargain than a £1,000 one.

Yet the commission has been many times as large, although, over recent years, the rates have tended to be shaded at the top end of the scale; especially since the introduction of so-called "continuation," which allowed big funds to group together separate bargains in the same stock, so as to take advantage of lower rates on the larger deals.

From now on, the institutional investor will very definitely have a choice in how he deals, and will expect to pay substantially less even for a full service. The private investor is less well-placed, because he has less bargaining power, and anyway may have been cross-subsidised in the past out of the fat profits made on institutional business.

The bravest choice available to the fund management groups is to trade directly with market makers. But to do this properly they will need to set up their own dealing operations. With the exception of the merchant banks and some of the insurance companies, such as the Prudential, these central dealing desks are comparatively rare, although many more institutions are planning moves in this direction over the next year or two.

The advantage then will be that they will be able to deal on the finest terms, without paying commission. But they will not get the benefit of research, and the daily stream of news and ideas from the brokers' salesmen.

Accordingly, just about all institutions will be ready to transact at least part, and perhaps in some cases all, of their business on a commission paying basis. But,as a variation, they may do it on a "net" basis, the commission being disguised as a wider spread between bid and offer prices.

Net prices are the rule on NASDAQ, the US "over-the-counter" market on which the new-style London market has been modelled. Robert Fleming, the merchant bank which has operated a non-Stock Exchange dealing service in equities for the past two years in London, also operates like this.

It is, perhaps, a simpler way for an integrated securities firm to operate, and has the side-benefit of avoiding the VAT which is payable on separate commissions.

Many people think that the London market will move over quite quickly to a net basis. But there has to be a period of transition from the old trading system, and for most institutions the first step has been to negotiate a new rate of agency broking commission.

The starting point is an average institutional commission on equities of around 0.40 per cent (though some of the biggest institutional brokers, such as James Capel or Wood Mackenzie, with a lot of business on continuation, say that their average commission has been around 0.28 per cent in the closing months of the old system).

First, it seems, the institutions want to scrap the old sliding scale, whereby small bargains paid a much higher percentage commission, and move to a flat rate for all the deals with an individual brokerage house.

Second, they want a significant cut in the effective rate, although there is no unanimity about the level. Most negotiations have apparently centred on figures within the range 0.2 to 0.3 per cent.

Although there are some hawkish institutions around, most are constrained in their negotiations by the realisation that they need the brokers' services. It is unlikely that they would be totally cut off from published research, but they would go down the priority list for telephone service. Such fears are felt more strongly, of course, by the smaller funds.

One effect is likely to be that institutions will concentrate their business through fewer brokers, so as to improve their bargaining power, perhaps by guaranteeing an order flow. The assurance of regular business will be important for the market-making arms of the new securities firms.

Initial agreements are for short periods of around three months. Later on, when the market has settled down, annual contracts are more likely to be the general rule.

And in due course, a common basic commission rate, albeit unofficial, is likely to re-emerge as brokers and fund managers get wind of what their rivals have negotiated. But comparisons may be a little tricky, because the levels of service may vary much more than in the past.

Many British fund managers say they will be helped in the new conditions by their experience in negotiating commissions in New York, and also in the international equity market in London, where Stock Exchange member firms have been trading in dual capacity for two years now.

Interestingly, the dealing basis is likely to be substantially different in the new gilt-edged market, where most institutional business is likely to be done directly with market makers. Generally speaking, the need for research is much less in gilts, and price competitiveness in large size will be the key factor.

Nevertheless, several medium sized broking firms, like Capel-Cure Myers, which have decided not to become official gilt-edged market makers, will be trying to carve out an agency business.

They argue that many institutions will be willing to pay a commission of 1/64th per cent or so to a broker ready and able to take on the tedious task of scanning the screens, manning the telephones and finding the best deal.

Barry Riley

SPLINTERS

- The highest number of bargains in one day on the London Stock Exchange was 44,106, on December 12 1984, following the offer for sale of BT shares. The record for a year is 4,848,671 in the year ended December 31 1984 (Guinness Book of Records).
- The first known joint stock company was the Muscovy Company, also known as the "Mysterie and Companie of the Merchant Adventurers for the Discoverie of Regions, Dominions, Islands and Places Unknowen." In 1555 it secured a charter giving it the monopoly of trade with Russia.

NEWS ISSUE

This announcement appears as a matter of record.

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Property advisors to the following financial institutions in the lead up to Big Bang.

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Morgan Stanley International
Salomon Brothers International
The Long-Term Credit Bank of Japan
Barclays Bank
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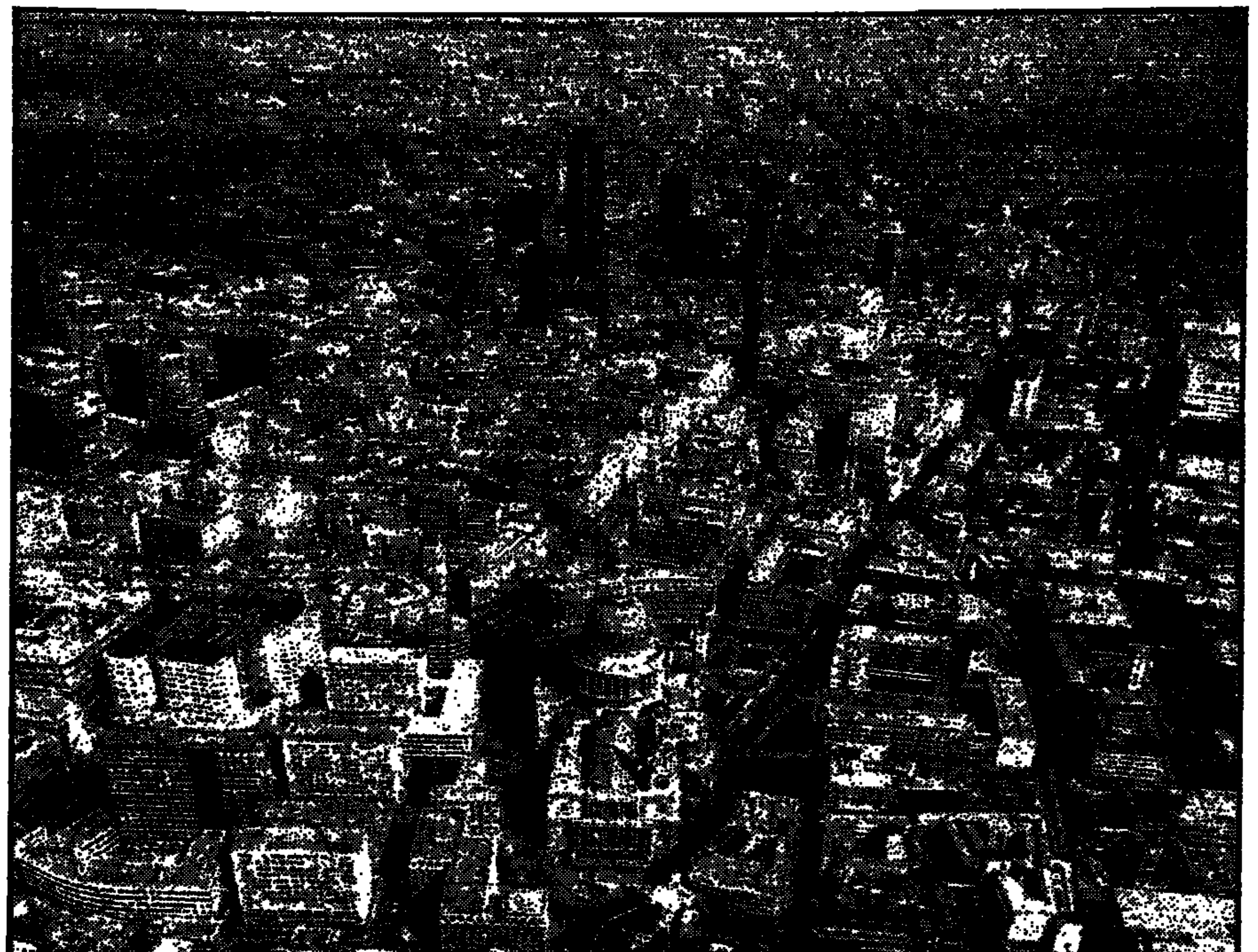

Glyn Genin

The City of London . . . . If the American experience is repeated, the new reporting systems will prove only the first move along an expressway of permanent change in the way securities are traded there.

Published Information

The exchange accepts reality

THE FUNDAMENTAL restructuring of London's securities trading industry faces its ultimate test today when the first trades in bonds and equities under the new system begin to flicker across the television screens in the offices of the potential players in the market place.

The debate over the deeper implications of Big Bang will be stilled, temporarily at least, as the monarchs of the world securities industry take stock of the trading and reporting systems installed in London over the past two years.

By electing to put the new market on to an electronic reporting base, the UK Stock Exchange was accepting the reality of other world markets—notably those of the US, where the NASDAQ over-the-counter markets have seen explosive growth in terms both of share turnover and company listings since going electronic.

The experience of the US markets, the New York Stock Exchange (NYSE), the American Stock Exchange (Amex) and NASDAQ, has emphasised the effects of rapid and widespread dissemination of securities trading information.

This information flow can fundamentally transform the market, ushering in programmed trading, which allows major investors to react instantly to shifting circumstances. It can also draw a whole new range of investors, once too far from the centre of the investment stage, to play a significant role.

If the American experience is any guide, then the new reporting systems installed in London under Big Bang will prove only the first move along an expressway of rapid and permanent change in the way securities are traded in the UK.

When the Stock Exchange Quotations System (SEAQ) is switched on for real, subscribers will be introduced to a slightly Orwellian system for reporting equities. The Exchange's Marketing Committee has divided the 3,000 or so stocks currenty quoted into three groups:

The Alpha stocks are the 65 or so most actively traded, the Betas the 500 or so less actively traded, and the remainder, doomed from birth as Gammas, are the least actively traded on current form.

In Alpha and Beta stocks, market makers are required to show buy-sell price quotations which are "firm"—ie tradeable—to all members of the Exchange. For Gamma stocks, market quotations are only "indicative," or tradeable only when confirmed by the dealer.

All equity trades must be reported to SEAQ within five minutes, although only Alpha trades will then be reported in full on the screen, giving both the size of the deal and a running total of the day's volume in the stock. Beta and Gamma prices will be updated on each deal, but the wider turnover details will not be publicly recorded until the next day's Daily Official List published by the Stock Exchange.

The five-minute reporting rule has hidden significance in that it will enable absolute enforcement of the long-standing Exchange rule that brokers must always deal at the best price available for their clients.

All deals and price quotations will now be timed and recorded in the Exchange files of the SEAQ pages, eliminating room for argument over when deals were done and whether a better price was quoted in the market.

Turnover disclosure in individual stocks could prove the sticking point for investors when judging the post Big Bang market.

First, because it seems likely that much of the trading, at least in major stocks, will quickly move off the Exchange trading floor, to be conducted by telephone between the big trading houses. And second, because effective reporting has been seen to be the key to expansion of the securities markets.

US traders and investors are accustomed to speedy and wide-ranging disclosure of equity turnover information, and London could come under pressure to follow suit. For the Alpha stocks, barely 2 per cent of stocks quoted but nearer 75 per cent of daily turnover, turnover details will show up quickly on SEAQ. But for the Beta and Gamma stocks, traders will have to wait until the following day.

At a recent meeting in London, members of the International Equity Dealers' Association (IEDA) were urged to press for increased disclosure of trading information in London. The urging came from Mr Don Weedon, a hero and successful survivor of Wall Street's own Big Bang on May Day 1975.

He pointed to the massive surge in NASDAQ trading since the introduction of its electronic National Market System which extended turnover disclosure reporting to the broad range of over-the-counter stocks.

Turnover reporting may not be a significant problem for London initially since the major newcomers, the US and European banks and securities houses, will confine their attentions almost entirey to the Alpha stocks.

But prospects for growth in the London market—and Mr Weedon emphasised that NASDAQ's boom followed its introduction of wider, electronic reporting and in fact preceded May Day by several years—must eventually hang on wider reporting of trading information.

Overseas investors, particularly in the US, will be discouraged by the absence of turnover information, and this can only harm market liquidity and stock marketability.

In the case of UK Government bonds (gilts), investors will see only indicated prices and bargain sizes quoted on SEAQ by the market makers. The service also covers some corporate and similar fixed-interest securities. Reporting requirements are slightly easier than for equities—deals under £100,000 must be reported within 10 minutes, larger deals within 30 minutes.

Market makers in gilts will see firm, tradeable prices, their own as well as their competitors, on a screen exclusive to themselves, and operated by the six firms currently acting as inter broker dealers.

Terry Byland

New Issues

Fewer chances for individuals

RULES COME into force today which will make it easier and cheaper for companies to raise equity through the Stock Exchange.

Companies coming to the market for the first time can now raise up to £15m by having their shares placed directly with institutions. Up to now, an issue of more than £3m has had to be made by an offer for sale to the public. In the unlisted securities market (USM), the placing limit moves up from £3m to £5m.

Sponsors will have to make a quarter of the issue available to public investors or give it to another firm to sell to its clients. But opportunities for individual investors are likely to be reduced, and they may more often have to buy in the secondary market.

The changes reflect pressure by companies to lower the cost of raising domestic capital, and are suited to the expanded market-making capacity and sales networks now on offer from members of the exchange.

Proposals were sent out in January, in a package that covered also the waiving of preemption rights on issues which follow a first float. By the time they were passed by Council in August, they had been modified by investor-protection bodies. New issue sponsors have had ample time to adjust.

At Hambros, said corporate finance director, Mr Robert Waddington, they had felt the restraint of being forced to make an offer for sale for a client to raise small amounts. The costs of advertising to stimulate public interest at the £3m level were not worthwhile. "We did one issue that we had to price to get within the placing limit." By September, the bank had put off the launch of a "non-household name" company so that it could be placed in the higher band.

At brokers L. Messel, a similar debate came to a different conclusion. They were preparing to launch Ryman on the USM, where only eight of the 48 issues brought from January to July were public offers. With the amount to be raised still undecided, but likely to fall between £3m and £5m, the option to place was now open. In this case, with potential interest from the high street investor, the feeling was to stick to an offer for sale.

During the two years to the end of 1985, 56 new issues were offered to the public which could, under the new rules, have been placed instead. The amounts of money raised were small compared with privatisation issues among the 14 public offers of more than £15m. Although the public offer will continue to be used for well-known companies in a fashionably rated sector, the view is that for others the placing may take over.

As if to acknowledge that new issuing methods will come into play after today's move to dual-capacity dealing, the Stock Exchange now prefers to call placings "selective marketings." With growing competition for new issue business among the securities houses now assembled in London, underwriting commissions are coming under pressure. US methods, such as the bought deal, serve as the model.

It is into secondary issues of new shares by well-rated companies that new methods are most likely to spread. The bought deal, where an investment bank buys an issue on to its market-maker's book at a fixed price and distributes the shares through its own sales network, is not suited to a company float.

In debt, it has been introduced in bulldog and domestic corporate bond issues, and in equity by the scurities houses which have bid for and broken up investment trusts.

"The purest form of bought deal is the block trade," said Mr Stephen Brisby, a corporate finance director at Salomon Brothers, soon after it had bought, with Hoare Govett, 18.8m shares in British Petroleum and placed them in other hands.

The shelf-registered issue, which allows a US company to issue securities for up to two years after a prospectus is filed, by following up with a short-form registration and a quick launch, is a less immediate prospect. It does not apply to initial offerings. In theory, there is nothing to prevent a UK company, say the accountants and lawyers who draft flotation prospectuses, from commissioning them to do the paperwork independently, under "due diligence," and asking investment banks to bid the best price for a launch. But these professions may not want to disturb their relationships with sponsors, and sponsors say they will not put their name to a new issue unless they have nurtured it all the way to the launch.

For secondary issues of shares, there is more scope. By issuing new shares packaged as depository receipts on overseas exchanges, and by offering bonds with equity incentives, companies are already tapping sources outside the domestic market. Shares are taking on some of the internationally tradable and bearer form characteristics of bonds.

Issuers want greater flexibility. Today's new Stock Exchange rules allow company boards, if they can persuade shareholders to give them a 75 per cent vote of approval in a general meeting, to waive preemption obligations for a year. They will find it easier to place a secondary issue of new shares without restraints on the amount of money raised or the proportion of enlarged equity capital it represents.

If the delays involved in getting specific approval can be avoided, and a rights issue need not be staged, investment banks can be invited in to bid for the deal. Without underwriting commission, the one that buys an issue of new shares at a fixed price has to make its profit in the spread at which it can be sold on to investors. Advisory fees may have to be adjusted if, in competitive bidding, the risks associated with fine margins are to be offst.

It will take some months to see how today's relaxed limits will affect the private investor. Brokers feel that the aftermarket for new issues will become less liquid, with "selective marketing" increasingly locking up stock in institutional portfolios. And even the exchange had misgivings about the way these issues are carved up between institutions. For the institutions used to sub-underwriting commission, compensating access to attractive issues may be at the expense of the individual investor.

Rosamund McDougall

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THE FIRST BRITISH BANK TO
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MIDLAND 1980
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MIDLAND 1984
THE FIRST MAJOR CLEARING BANK
TO INTRODUCE 'FREE IF IN CREDIT' BANKING.

MIDLAND 27th OCTOBER 1986
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WHEN YOU NEED US WE'LL BE LISTENING.

Six months ago the major stockbroking firm, W. Greenwell & Co., became a wholly owned Midland Group subsidiary, Greenwell Montagu.

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Midland Bank Group

The new market

Tight margins will sort out stayers

The Bank of England has designed a new and much more competitive screen and telephone market for gilt-edged securities. With nearly half of the market makers, or primary dealers, under overseas ownership the market is likely to be increasingly internationalised.

THE arithmetic appears inescapable. If there is to be blood on the floor anywhere after London's financial markets have transformed themselves, then it is most likely to be on the floor of the UK Government gilt-edged securities market.

For decades the gilts market was the preserve of only two major jobbers. It is now dominated by three, with capital of around £100m. After today these single-capacity jobbers will be replaced by 27 primary dealers who will combine the function of making a market in gilts with that of selling direct to the investor. They are capitalised at a total of around £700m.

To the sceptic, it appears all but impossible that a market which turned over around £262bn of stock in 1985 is going to grow fast enough to provide an adequate return on a seven fold increase in capital—especially since the dealer's margin, replacing both the jobbers's turn and, for major institutional clients, the broker's commission, is expected to drop to 1/8 per cent.

The odds have already put several large financial institutions—Schroders, the London merchant bank, and Drexel Burnham Lambert, the US securities house, which had been expected to apply to the Bank of England for recognition as primary dealers in the new gilts market—against joining the club.

Bank of America, under strain from its heavy losses, had second thoughts and withdrew from the market in March. "We have decided to allocate our resources towards those markets where we have an established presence," said Mr Gerald Doherty, managing director of the group's London-based merchant bank.

Then, in July, just three months before the starting gun, Union Discount announced that it, too, was dropping out as a primary dealer after spending £250,000 on computer equipment for the gilts operation. It had concluded that there were too many market makers backed by too much capital to allow enough profits to be made.

There have even been reports that the Bank of England had been trying to encorage more withdrawals by setting unreasonably high standards to the market makers. These reports were denounced by the Bank as "scurrilous gossip."

Although most participants in the market do expect turnover to increase, perhaps by as much as four or five tmes, the majority of those who remain realise that they will make money by taking the right positions in stocks, not out of the margin on the deals they transact for clients.

Among the 27 primary dealers who remain committed at the time of writing are many familiar names from the old Stock Exchange, with the addition of outside capital from a range of UK and overseas banks.

Wedd Durlacher and Akroyd & Smithers, the two former jobbing giants, have been bought respectively by Barclays Bank and Mercury Securities, parent of the merchant bank S. G. Warburg. They will be joined in their rival conglomerates by stockbrokers de Zoete & Bevan, Rowe & Pitman and Mullens and Co, which used traditionally to act as broker to the Government in the gilts market. This part of its activities has now been brought within the Bank's own doors at Threadneedle Street.

Other leading gilts stockbrokers from the old market have also formed alliances and will take their places as primary gilts market makers. Phillips & Drew has linked with Union Bank of Switzerland; W. Greenwell & Co with Samuel Montagu, an arm of Midland Bank; and Pember & Boyle with the London merchant bank Morgan Grenfell.

Not all the participants in the new market are so familiar from the old. Leading US investment houses, such as Goldman Sachs and Salomon Brothers, have formed their own gilts trading teams without buying a stake in a jobber or a broker, although both have hired key personnel from Stock Exchange firms. Lloyds Bank, too, has chosen to form its gilts operation from scratch, despite the Bank of England's efforts to act as matchmaker for it with a number of broking firms.

Some of the newcomers have already made their presence felt. Merrill Lynch, the massive US investment house, has created ripples through Giles & Cresswell, a small and previously little-known jobber which it rapidly built up to take on the two leading gilts jobbers, Wedd and Akroyd.

Baring Brothers, the London merchant bank, also took over a jobber, Wilson & Watford. It chose, however, to build up its gilts trading outside the Stock Exchange ahead of October 27, separated from the jobbing operation by the requisite Chinese walls. Barings, and Bankers Trust, the US group, have been among the most active gilts traders outside the auspices of the Stock Exchange in the months ahead of the new market's birth, although Goldman's dealing activities have also drawn attention.

The Bank of England, as the leading user of the gilts market, is committed to dealing only with the authorised primary dealers, who in turn are committed to making continuous two-way markets across the spread of gilt-edged stocks, no matter what the market conditions.

The primary dealers will also be the only groups with access to the inter-dealer broker network, which will enable them to unwind their positions with each other anonymously and keep track of price movements; and with the Stock Exchange money brokers, who will arrange loans of gilt-edged stocks to market makers as well as financing for their bull positions or the placing of funds from bear positions.

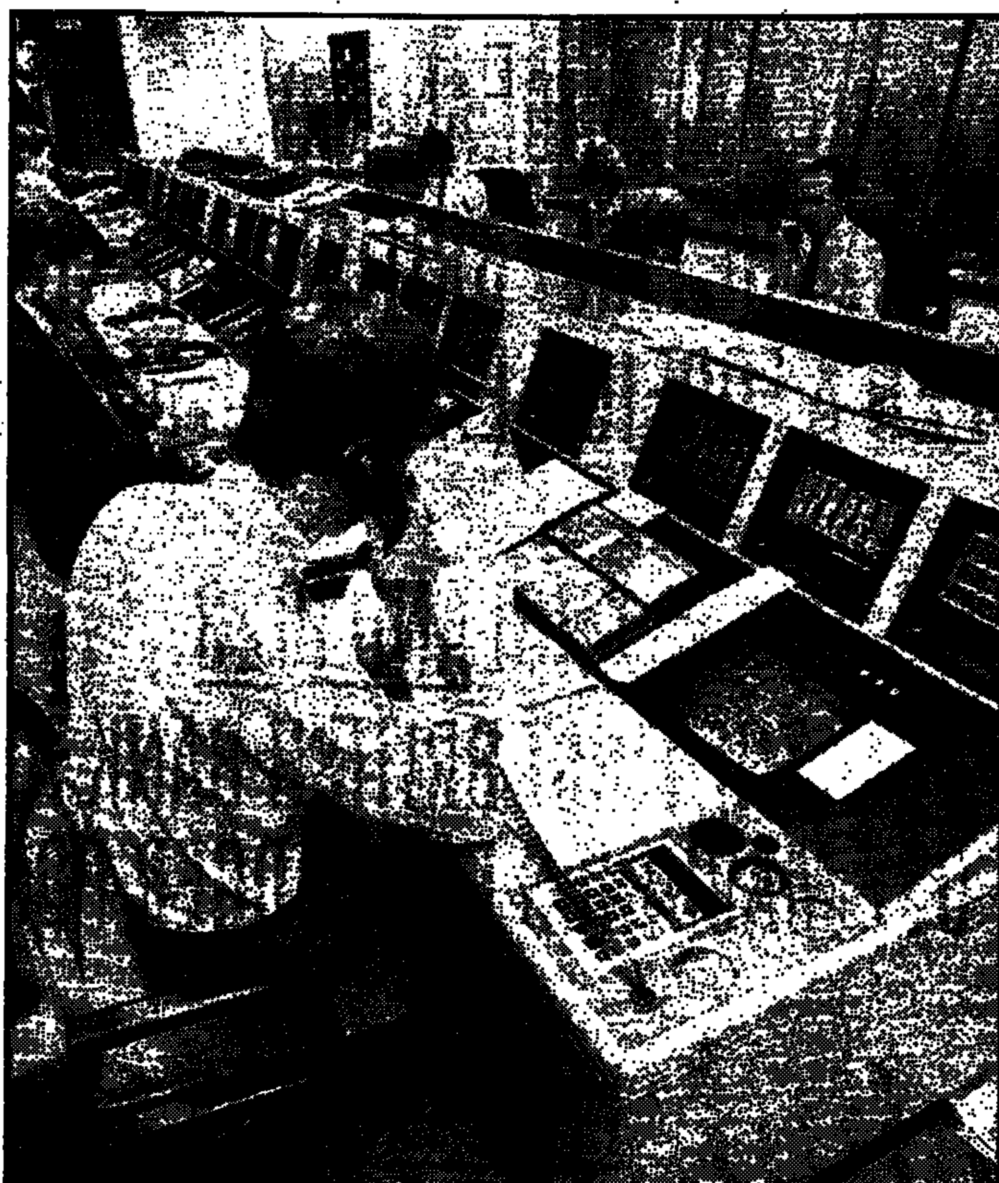
Stock lending is one of the areas about which many market makers remain most anxious. The Bank has been encouraging institutional investors to lend stock to aid the liquidity of the gilts market; but there are expected to be problems in some areas of the market, especially in the low coupon sector, where the Lloyd's insurance market is a dominant investor.

To begin with, the Bank plans to continue to issue gilts using the same techniques as now, particularly the tap system by which the Bank makes a stock available over a period—often after initially offering it to the public by tender—when there is demand to be met in the market. The system is felt to allow considerable flexibility in managing the gilts market, and to be sensitive to market conditions, since the Bank, by convention, does not aggressively lower the price of a tap stock when the market is falling.

A trial series is planned, however, of gilts auctions similar in style to the US Treasury bond auctions. Under this system, a known quantity of stock is offered at known intervals, and bidders receive stock at the price they bid, rather than at a common price as under the present tender.

Initially, the Bank is likely to experiment with auctions of shorter-dated conventional gilts. It would give an assurance that no further stock of the same type would be issued for a specified period.

George Graham



The Bank of England is the leading user of the gilts market, and the Bank's new dealing room (above) is at the heart of that market.

SPLINTERS

• Charles Montague, Earl of Halifax, introduced the bill for the incorporation of the Bank of England. Subscription lists opened on June 1, 1694, and closed 12 days later after £1.2m had been subscribed. This amount was immediately lent to the King at 8 per cent. In return he granted the bank a charter, enabling it to issue notes payable on demand up to the amount of a given loan.

• Over the years 1970-75 the UK gilt-edged market provided 73 per cent of the Government's domestic borrowing, compared with 43 per cent for Switzerland, 39 per cent for the US and 37 per cent for West Germany. The UK average between 1979 and 1981 reached 98 per cent, and in 1981 and 1982 was more than 100 per cent.

Inter-dealer brokers

A mechanism that will lubricate sales

"OIL BETWEEN the cogs" may not be the appropriate metaphor for a business so firmly rooted in electronics, but it is a description readily accepted by many of the inter-dealer brokers, or IDBs, who will act as intermediaries in the new market structure that has been set up for trading in gilt-edged Government securities.

The new gilts market will see the replacement of the three major stockjobbers, or market makers, who may deal with investors only through the agency of a stockbroker, by 27 primary dealers. They will again make a market in gilt-edged stocks, but can also deal directly with their investment clients.

The IDBs will provide the mechanism through which the primary dealers in the gilts market can trade anonymously with each other and unwind the positions they build up by dealing with their clients. They therefore make a crucial contribution to the liquidity of the gilts market by ensuring that stock can move quickly from seller to buyer.

The success of the system depends on communications, with the IDBs transmitting the prices offered by a primary dealer who wants to buy or sell stock to screens in all the other primary dealers' offices.

Only the primary dealers recognised by the Bank of England will have access to the IDBs. Since dealers who offer stock through the IDB system will be trading "blind," without knowing the identity of their ultimate counterparty, they have to have confidence in the creditworthiness of all the people with whom they may be dealing.

In addition, the Bank of England agreed to the argument that giving wider access to the IDB network could enable broker dealers, who do not have the obligation to make markets in all conditions that are imposed on authorised primary dealers, to attract business away from the market makers without undertaking the risks.

"These concerns may lessen in time as participants gain experience with the new market arrangements. But, in the initial phase at least, the Bank is anxious to encourage the liquidity provided by the market-making core of the new structure, and so will want the IDB networks to be made available only to the market makers," the Bank said, in its notice on the new arrangements for the gilts market.

Six companies are setting up as IDBs, for the most part with backgrounds in the world of money-broking: Charles Fulton, part of International City Holdings; Garban Gilts, part of Mills & Allen International; Mabon Nugent; FBI in the Mercantile House group; Tullett & Tokyo; and Williams Cooke Lott and Kissack, in the Exco group.

Although some problems remain, over computer connections and the speed with which links are being completed to the Mercury telecommunications network, which all but one of the IDBs have chosen in preference to British Telecom, most companies remain confident that they will be up and running in time.

"You tend to be more relaxed about the things you understand. I understand trading and dealing, so I am not worried about that, but I still worry about the computer, because that is outside my control," said Mr Charles Pendred, of Garban Gilts, who is chairman of the IDB's association.

Some of the primary dealers have also found it difficult to get their own systems ready in time, so that, in many cases, six separate IDB screens are having to be stacked on top of each other.

"We have had major headaches over Mercury and communications, but our main worry now is bedding down," said Mr Bill Foy, managing director of Charles Fulton.

"We could even cope with a power cut at Big Bang, because we have our own generator, though I am not sure about our clients," commented Mr Nigel Williams, managing director at Williams, Cooke, Lott and Kissack.

The IDBs will not be allowed to take their own positions in stocks—which would allow them to take advantage of the confidential information they acquire about the primary dealers' positions—but they will act as principals in carrying out deals between primary market makers.

Their "turn," the margin which pays them for their services, will therefore be added to the prices quoted on-screen, rather than be charged in the form of commission, on which Value Added Tax would be payable.

While the Bank of England has been anxious to encourage competition in pricing, for the most part the new IDBs will be charging 1/128 per cent per million pounds dealt, equivalent to £78 per million.

Sometimes referred to as "a split 1/64," this rate used to be charged by IDBs in the US Treasury bond market. It has recently been halved to 1/256 in the New York market, although 1/128 is still charged in US Treasury bond trading in London and Tokyo.

The fee is charged only on the "aggressor," who "hits and lifts" by taking up a bid or offer posted on an IDB's screen. It therefore costs a primary dealer nothing to list the prices at which it is willing to trade on the IDB network.

Turmoil in the world's financial markets over recent weeks has provided an ominous warning of the sort of problems that the system could face.

"If we hit a day like last Friday [September 12] in the US bond market, when the New York IDBs had a hard time keeping up, would we have coped?" wonders Mr Foy of Charles Fulton.

October 27 provides the first test of that.

George Graham

Mercury International Group plc

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Sterling bonds

Bulldogs keep to their limits

FROM TODAY, long-term sterling corporate bonds will be traded on a dual-capacity basis alongside gilts. Bulldogs, domestic bonds for foreign issuers, already are. For many this development is their chief hope of a revival, because at present they are fast losing ground to the Eurosterling market.

Compared with the gilt market; the corporate and Bulldog markets are tiny. The combined value of outstanding Bulldog bonds, domestic issues for foreign borrows, and long-term corporate loan stocks currently amounts to only about £6bn, as against £128bn worth of gilts.

High sterling long-term interest rates have made issues in the Bulldog market—mainly for sovereigns and supranationals—sporadic, while UK industrial companies have fought shy of long-term funds. Property and investment companies have kept the corporate bond market alive almost single-handedly.

In this situation, the UK pension funds and insurance companies, the main buyers of these bonds, have had little chance to trade them in size.

"Little Bang," on July 7, was meant to open up new vistas of liquidity for the Bulldog market by bringing at least market makers into play, instead of the traditional four. But it has so far proved something of a non-event.

One of the aims of "Little Bang" was to iron out problems ahead of the main event in the gilt market.

Certainly, it proved a shock to Bulldog settlements procedures. Bulldogs, like gilts, are registered bonds, though some have bearer options, and they are traded for 24-hour settlement. Unlike gilts, however, Bulldog registrars are liberally scattered all over the country.

When, for the first time, after July 7, Bulldogs began to change hands several times in the course of one day, complicated paper chases developed, and in some cases delivery was delayed.

Dealers say these problems have now been eradicated, although it is not at present clear that 24-hour Bulldog settlement will long survive the Big Bang.

Turnover in Bulldogs stepped up with dual capacity trading, but fell off after the initial euphoria. One market maker said that, in the first week in July, he saw about 50 bargains a day, worth about £25m, as against previous daily turnover of about £5-10m.

It is now possible to obtain a price quotation on a 1/4 point bid-offer spread in sizes of up to £1m, as opposed to an average 3/8 point spread in £1/4m before dual capacity trading.

But retail investors have remained sidelined, and almost all the increased turnover has been inter-professional.

Dealers say the enlarged Bulldog market has split into two groups. Some houses, mainly the traditionally active players, are swapping prices between themselves. Others are merely making occasional forays into the market on client business.

As well as changes in trading, the abolition of fixed commissions has led to a revolution in issuing techniques. Bulldogs for sovereigns and supranationals used to be sold into the market because there they enjoyed the finest, "gilt-edged" trading commissions.

Dual capacity trading will change all this, and, in anticipation, sovereign deals have recently been placed directly with the institutions.

But, even though trading and issuing techniques have become more efficent, the Bulldog market is hardly likely to see a welter of new deals while the Bank of England still operates a queuing system and limits issue amounts to £100m.

Meanwhile, recent months have seen a flight of business away from the domestic corporate bond market into the unregulated Eurobond market.

Eurosterling bonds with maturities over ten years used to be believed impossible. This was because overseas investors are wary of extending their sterling exposure while domestic institutions were expected to reject a long-term bond with fewer restrictive covenants than those in the domestic market.

But this belief was overturned in the spring of this year as UK companies rushed for the first time to lock into historically low long-term interest rates.

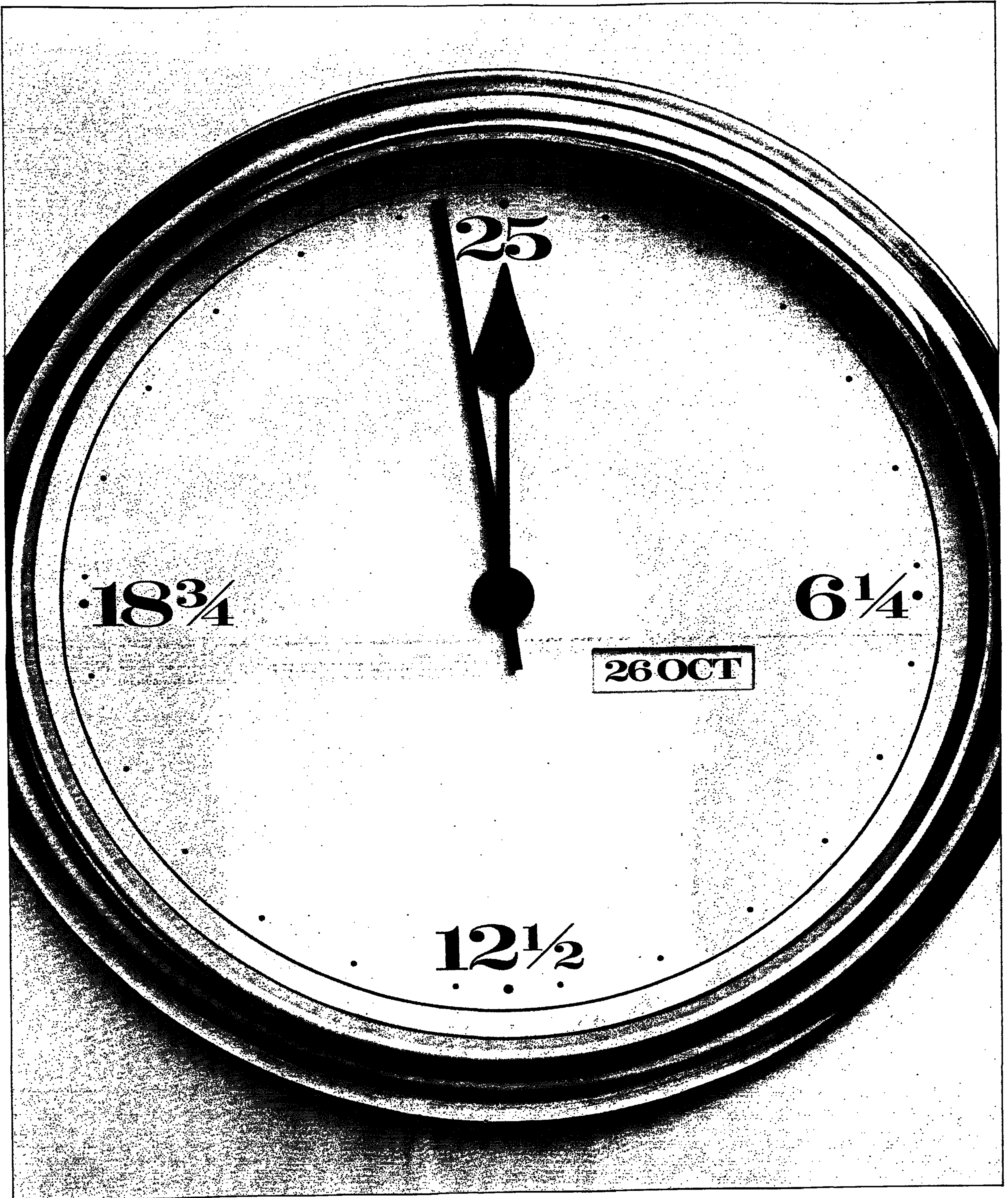
The domestic market was deprived of this potential boon since the Chancellor, in a surprise move, imposed 1/2-point stamp duty on trading in domestic bonds in his last Budget speech. The UK institutions were forced to buy the new 20-year Eurosterling bonds instead.

Stamp duty was later removed, but the interlude established that UK institutions were prepared to be less conservative in their demand for restrictive covenants than had been thought. And this had been a major distincentive to issuing domestic bonds.

As Bulldogs and corporate loan stocks are traded alongside gilts, they should enjoy some "spin-off" liquidity. But for borrowers they remain restrictive and unwieldy, so the Eurosterling market should continue to grow at their expense.

Clare Pearson

TO PREPARE FOR TODAY, WE WORKED 25 HOURS YESTERDAY.



Working round the clock is nothing new to British Telecom. In the last year, in preparation for the Big Bang, we've clocked an average 12,000 man hours in the City every weekend.

We've installed over 50,000 miles of private circuit. (That's twice round the world in the square mile.) And we've completed a record number of dealing room systems.

All this, even when there were only 24 hours in a day.

British TELECOM

THE PEOPLE FOR COMMUNICATION.

The integrated firm

More efficiency but fewer safeguards for investors

UNTIL THE Stock Exchange entered the final stages of preparation for today's Big Bang, jobbers (market makers) and brokers only met on the floor of the Stock Exchange. They divided the functions of the market between them: brokers went out and collected orders as agents, jobbers stood in the market and provided the stock as principals.

Even when the exchange permitted brokers and market makers to work for the same employers last March it insisted that they operated separately. From August they were allowed to visit the same trading rooms as brokers—but only before the market's 9 am opening, and after its 3.30 official close.

From late September, the market makers were allowed to operate all day from the upstairs trading rooms, but were still not allowed to co-operate with their broking colleagues. Only today do all the internal barriers come down. Integrated trading can begin.

Stock Exchange firms are now able to collect orders and execute them under the same roof. This ought to enable them to operate more efficiently. But it will also introduce new conflicts of interest, and remove safeguards for investors.

Basically, the new system revolves around securities traders. They will be able to build up positions, and market those positions directly to investors. The latter will still be able to hire agency brokers to look after their interests, but they will have to pay extra—in the form of commission—to do so.

New rules to protect the interests of investors are being introduced, notably the "best execution" provisions of the Securities and Investments Board which require that customers should get the best price available in the circumstances.

But these provisions are not very relevant to large institutional investors, who will have to be prepared to look after themselves when they trade large amounts of stock which can be hard to price accurately.

Seeking to exploit their new opportunities to the full, securities firms have been looking very carefully at various ways of organising their trading operations. The basic step is to bring their salesmen, who up to now have acted only on agency business, into contact with the traders.

One system is to create a new type of salesman called a sales trader who is required to work very closely with his trading desk, and is effectively the channel through which the trader talks to the client base.

There can also be specialist, or research, salesmen who concentrate on particular sectors and continue to market the firm's ideas to clients much as before. But they will be required in future to keep the firm's traders closely in touch with what they are doing.

The same firm may also have agency brokers, who will work for commission and will put the client's interests first. To emphasise their orientation, they will often be located off the main trading floor, and even in a separate building.

Research analysts form another important group. In the past they have developed ideas and regular services—such as economics newsletters and sector reviews as well as specific share recommendations—which clients are willing to pay for in the shape of commission allocations.

They now face the problem of how to relate to the trading desk. If they come up with an important idea or an item of price-sensitive information, should they tell the client first, or their trading desk so that the trader can make sure to get his book the right way round before the news breaks?

Some firms insist that both clients and traders will be told at the same time. But the majority expects that the traders will get the hint first.

They justify this by saying that a share recommendation could be useless to clients if the firm's traders are unable to supply stock at anything like the price ruling when the recommendation is made.

Institutional clients probably will not mind if there is a certain amount of pre-positioning, or "front running," of this kind. Any book profit will be regarded as a justified reward for the firm.

It could be a different matter, however, if the sequence of events is the other way round: that is, if the traders build up a big position—perhaps through clumsiness—and then ask the research department to dream up a plausible story to enable the position to be offloaded on to the firm's clients. Damaging reputations could very quickly be built up this way.

The new firms face a big job in explaining to their institutional clients the exact basis on which relationships are to be carried on in future. The important aspect will be to spell the new structure out clearly. A client who thinks he has been misled is likely to be a lost client.

Further complication is added by the fact that most securities firms act not only in two dimensions—operating to generate profits out of their trading book, and serving investment clients—but also in a third.

This relates to their services to corporate clients, who may want their images polished from time to time, and may look to the research department of their corporate broker for something less than a fully objective treatment.

Although this is not a new conflict, the changed circumstances after Big Bang could increase the scope for abuse, in that the trading desk will now be brought into the picture. A particular area for rapid development could be the so-called "bought deals," whereby new issues are distributed. It is very hard for a firm to give fair advice to both corporate client and investment client in these circumstances.

Moreover, it will from now on be possible for securities firms to make markets in the shares of client companies. Some of the smaller, less marketable companies may indeed come to expect this service to be provided by their City advisers. It will require great sensitivity to keep the inherent conflicts under control.

In spite of the obvious difficulties of integrated trading, the top US firms, which have been operating in this way for years, insist that close meshing of sales, trading and research is the way to go. Placing the different specialists in close proximity on the trading floor is regarded as vital.

Only with the right layout can the "feel" for the market percolate throughout the firm (sometimes research is just off the main floor, but is still physically very close).

The experience of many British investment institutions in trading in the US, and recently in the London market in international equities, which has been deregulated for more than two years, has given them some confidence in trading in the new environment.

Nevertheless, it is clear that many of them remain nervous, and inclined to stay with agency brokers for a good part of their business.

The agency brokers are paid to go out and get the best deal. In contrast, the salesmen of the integrated firms are forever calling up with special offers which may or may not represent good value to the client; it is up to the latter to judge.

Most people expect the London equity market to move progressively in the direction of "net" trading, with agency business in decline as British fund managers become more confident in their ability to cope with the new structure.

But there is a risk that abuses could delay that process, if the new, integrated firms become too greedy. Their biggest challenge may be to combine integration with integrity.

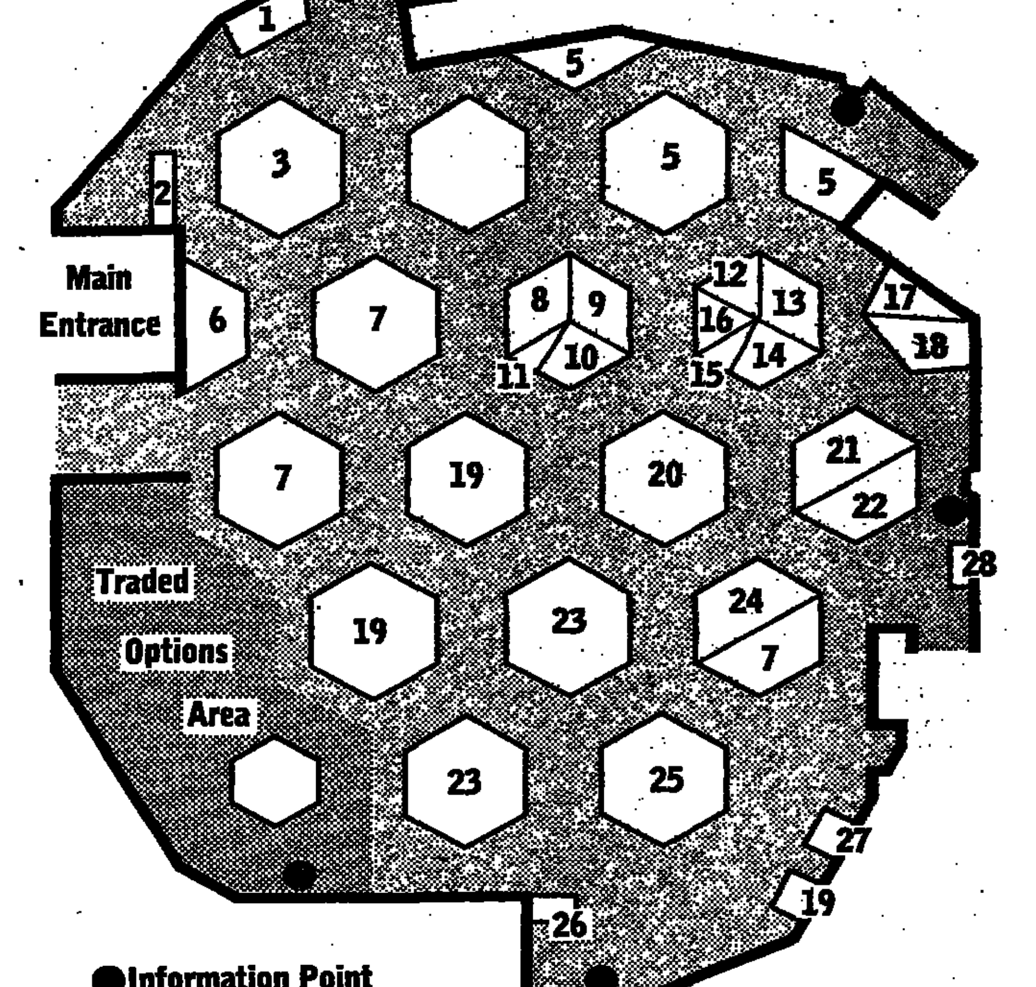
Barry Riley

STOCK EXCHANGE FIRMS

With the ending of the rigid distinction between brokers and jobbers, Stock Exchange member firms can now operate on a fully integrated basis. But they will need to be careful that conflicts of interest within the broadened firms do not upset client relationships.

New Pitch Allocation on Stock Exchange Floor

1. Savory Milln
2. Kitcat & Aitken
3. Citicorp
4. Hoare Govett
5. County Bisgood
6. H. Rattle
7. BZW
8. White & Cheesman
9. Greenwell
10. Jenkins
11. Sternberg
12. Wood, Mackenzie
13. Schroders
14. J. Capel
15. Seligmann
16. Strauss, Turnbull
17. Gilbert Eliott
18. Wilson & Watford
19. Smith Bros
20. Morgan Grenfell
21. Chase Manhattan
22. Merrill Lynch
23. Mercury
24. Phillips & Drew
25. Grieveson Grant
26. Jacobson Townsley
27. Laing & Cruickshank
28. L. Messel



Agency broking

A specialist field that may be less useful for gilts

TRADITIONAL stockbroking will survive after Big Bang in the shape of the so-called "agency brokers." By late September, only 35 Stock Exchange firms had registered as market-makers in equities—leaving the overwhelming majority of the 244 member firms committed primarily to old-style dealing as exclusive agents for investors.

But already big institutional investors—and some brokers themselves—foresee that some agency brokers will need to shout loud and offer carefully-tailored, specialised services if they are to maintain market share.

On the one hand, the pure agency broker can offer the client the anonymity which he loses if he goes directly to the market maker. He can also point to the possible dangers of dealing with a market maker who could be trying to unload large tranches of stock onto the investor.

And he can offer the traditional service of checking the market to assure best execution for the client. "It's worth paying commission to an agency broker to make sure you're not being ripped off," in the words of a director of one big firm committed to agency broking after Big Bang.

Such points were strongly made this summer by Capel Cure Myers, the London broker, in spelling out why it will be a pure agency broker in the gilts market. "Some institutions are worried that they won't get the best deal," said Mr Mark Cliffe, one of its gilts team. "We will guarantee that we talk to more market makers than the investor can."

There is, however, scepticism about agency broking in gilts. The argument is that agency brokers will compete best by offering high-quality research—but in the gilts market the interest rate and economic research required is widely available in-house to fund managers. Mr Mick Newmarch, an investment manager with the Prudential Corporation, said: "I don't believe that any agency broker is going to survive in the gilts market."

Mr Cliffe's reply is that smaller institutions, such as building societies have to maintain gilt portfolios but do not have the capacity to deal effectively themselves. In fact, he believes some market makers in gilts may see agency broking as an attractive alternative to the intense competition between the 27 market makers so far approved by the Bank of England.

Early, speculative indications are that agency brokers in equities will fall into three tiers—with their place in the order depending on what services they can add to the traditional ones. At the top, will be the blue-chip houses: the 200-year-old James Capel, and Cazenove, London's last big broker to retain full autonomy.

Given its consistent reputation as London's leading research house, James Capel raised no eyebrows when it signalled early on its determination to remain an agency broker.

Cazenove, in turn, has kept its options open by registering as a UK equity market maker, but indicated that it will avoid the top-flight alpha stocks while offering to add liquidity in the less frequently traded gammas and deltas.

Then, will come smaller London firms, such as Panmure Gordon, leading country brokers such as Henry Cooke Lumsden in Manchester, or Edinburgh's Bell Lawrie—that is, firms with reputations as new issue underwriters, strong corporate client lists, or regional research expertise.

Bell Lawrie, for instance, with 75 per cent of its business related to private clients, would primarily act as an agency broker "because that is the most suitable service for private clients," said Mr Derek McIntosh, its chairman. But local knowledge would give it scope for potential market-making in, say, Scottish stocks, partly as a way of facilitating institutional business, he added.

In turn, Panmure Gordon said it had considered going into market-making—but some big corporate clients said they would prefer dealing with an agency broker.

The third tier of agency brokers would consist of the rank-and-file of smaller firms, in London or the provinces, focused on private client business. Most see this as the natural home of the agency broker because of the individual investors' need for an informed intermediary to get him best execution.

Most of the question marks hang over the middle-rank agency brokers. Will they be able to take much institutional business when the big players can go straight to a market-maker dealing net of commission?

Mr Nick Train, a UK equities fund manager at GT, the investment management group, said: "We will do some agency business. We may want to pay a premium for a broker's special knowledge and abilities." That premium should shrink in any case because of the abolition of fixed minimum commissions. Managers administering small company and special situation funds might be especially ready to turn to agency brokers with research expertise," said Mr Train.

A further possibility, some fund managers say, is that stockbrokers' analysts will become disenchanted with working for a big market-making firm controlled by a remote US or European financial institution—and leave to join an agency broking firm offering more scope for individual initiative.

Nick Bunker

Research

Identity crisis for analysts

FOR PEOPLE who make their living by predicting the future, researchers are remarkably unsure about how Big Bang will affect them.

What seems certain is that radical change is inevitable. Broking firms, or rather, in many cases, their new banking masters, are having to reassess the value that analysts bring to the business. If commissions are squeezed drastically, analysts might start to look like luxuries many firms could ill afford.

"The correlation between research reputation and a firm's ability to do business is not always 1:1," in the view of Mr Nick Whitney, of Rowe & Pitman Mullens. It seems likely that when top management does start to look closely at the complex relationship between research and profit, Mr Whitney's comment will prove a gross understatement.

For a start, research has a wider role than just drumming up commission from institutional clients. It often supports the service that corporate finance departments provide to their clients. The analyst sometimes acts as semi-official spokesman for a corporate client when dealing with the press and institutions. For some of the smaller quoted companies, their broker's analyst is likely to be the only one following their stock-post Big Bang.

After today, analysts are also likely to be more in demand within their broking firms. Market makers will need back-up for their investment decisions, and their own analysts are likely to be the first port of call. "It'll be partly a hand-holding exercise," said one broker.

That throws up some potential conflicts of interest. Suppose an analyst gets hold of a piece of information which is certain to result in a share price rise. To whom does he pass on that informaton first—his market makers or his institutional clients?

If Chinese walls were perfect, that question would require only a short answer. The clients would be the first to know. However, few believe that things would be so straightforward. If the market makers are short of that stock, they are not going to be pleased if their own analyst fails to pass on information which could save them a lot of money. Similarly, what is the use of analysts passing on valuable information to investors, only for those institutions to do the trade with another firm?

In the real world, the answer will probably be a muddled compromise. "We will strive to practise simultaneous dissemination of information," says Ken Inglis, of Phillips & Drew. Other brokers hint that those clients at the top of the commission list might get a call around the same time as the market makers are alerted. Too blatant an abuse of the system would simply prove counter-productive by annoying important institutions.

Similarly, there is a natural limit to the extent which analysts can be used by market makers to hype the stocks on their books. "If analysts become the pawns of market makers, clients will simply go elsewhere," argues Lord Donoghue, of Kleinwort Grieveson. The morale of analysts would also suffer, if they felt they were merely the mouthpieces for the firm's traders.

But it is the relationship between analyst and institutional investor that is most taxing the predictive powers of research teams, perhaps because their jobs may stand or fall by it. Obviously more attention will need to be paid to what the investors actually want, or, as Lord Donoghue puts it, "analysts will have to be more commercially oriented."

That may mean a shift from providing background briefings on top corporations—the write-up of the company visit—to spotting the shares that will out-perform the market. In future years, analysts may well be judged less by the esteem in which they are held by investors than by the success of their tips.

All the paraphernalia of the business school graduate is likely to come into play. The analyst who knows all the chairmen of the major companies in his sector may be replaced by the computer-literate, plotting technical price movements on a spreadsheet. Lunches will become shorter and jargon will grow longer.

Horizons may also shrink. The pressures on the investment institutions to out-perform short-term indices have been well known for some time. The new market makers will also be looking for a one-month rather than a one-year view from their analysts. At that level, the finer points of balance-sheet analysis may go out the window.

It is also important to remember that Big Bang is designed partly to ensure that London is established as an international centre for equity trading. Those analysts who can take an international view of a company's or sector's performance may win business. It may be more relevant, for example, to compare BT with ITT rather than the FT All-share index.

Perhaps the key question is whether institutional investors will be willing to pay to receive research. In the short term, it would appear that the answer will be no. Too many brokers will be willing to offer a service free. How long they will be willing to do so will probably depend on how quickly and how far commissions fall.

In the longer term there may well be a flight to quality, with those analysts in the top three of their sector looking safe. At the opposite end, those analysts who specialise in small or regional stocks may also find their niche. The middle-ranking firms who have spread their resources thinly over a wide range of sectors may be most under threat. The message seems to be less that small is beautiful than that medium is ugly.

Who will be the surviving firms? Research is just one of the elements that a successful group will need, along with market making capability, distribution capacity, corporate and international business. A straw poll of six top analysts indicate that the four best placed were likely to be James Capel, Phillips & Drew, Scrimgeour Vickers and Hoare Govett. But, unsurprisingly, that was one set of predictions about which no analyst was willing to go on record.

Philip Coggan

To all who start a new race today, we wish courage, stamina, and success.

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MORGAN STANLEY

Specialised firms

Strategies that may follow the US

"AT ONE end of the scale you have the big players offering to be all things to all men. At the other, we'll see people hiving off into small specialised functions . . ."

The speaker is Mr David Adams, managing director of Manchester-based Henry Cooke, Lumsden (HCL), one of the biggest UK stockbrokers outside London. He is talking about the differing strategies open to broking firms after Big Bang—which could include seeking small, specialist niches in what everyone hopes will be an expanded market.

So far, observers have detected two main types of "niche businesses" (Mr Adams has spotted another two or three, which he prefers to keep to himself).

First, discount brokers, on US lines, could emerge, offering cheap commission rates for a "no-frills" execution-only service.

Second—again following a Wall Street model—there will be room for Stock Exchange member firms which provide clearing and settlement of other companies' bargains, rather than dealing themselves.

Penney Easton, the Glasgow firm, has already decided to contract its back-office services to a clearing member. The point here is that present London settlement costs of £20 per bargain leave room for economies of scale offered to smaller brokers by a central clearing and settlement specialist.

But early developments on these lines have been dominated so far by large conglomerates offering them as a part of their broader securities operations. Alternatively, it has been strong private-client brokers who have pioneered "no-frills" execution-only services as an optional extra, on top of their existing advisory or discretionary management services.

For instance, by late September the Exchange's only two "clearing members" were: first, Financial Clearing and Services (Fics); and second, Broker Services. Both are offshoots of big conglomerates—with Fics a subsidiary of Hoare Govett, the broker owned by Security Pacific of the US, and Broker Services a joint venture between Barclays and NMW, the stock processing bureau.

In turn, HCL has introduced Market Link, a plastic-card based "no frills" dealing service—but sees it as an extension of its full personal service to private clients (rather than as a substitute for it). Mr Adams says that means it is not an American-style discount broking service (though he predicts the appearance of "cheap and nasty" discount broking if volumes of share transactions rise after Big Bang).

Clearing services and "no-frills" dealing do not exhaust the possibilities—but identifying other specialist functions will require creative thinking. Especially, it could mean going for high-quality agency business by building expertise on overseas securities, where the capacity to add value through research advice to a middle-sized investment manager could be more important than offering cheaper commissions.

Mr Christopher Lyttelton, chief executive of Nivison Cantrade (formerly R. Nivison, the 100-year-old London stockbroking firm) says, however, that strategic planning in the run-up to Big Bang has too often been dominated by considerations of size, rather than perceptions of gaps in existing markets.

"People have been taking decisions in a very sensible way—but their reasons have been pragmatic, based on things like the availablity of outside capital," he said. Nivison Cantrade, on the other hand, has been one of the few firms to go very determinedly for a specific new niche.

The firm's history has been one of specialisation—but, within that, has shown the need for flexibility. Before the last war "Nivison was to fixed securities what Cazenove was to equities," Mr Lyttelton said. When sterling ceased to be a reserve currency in the 1960s, the market in sterling loans dried up. Nivison found another niche by developing overseas fixed interest business in the 1970s, and developed Eurobond expertise. (Mr Lyttleton was formerly a director of Wood Gundy, the Canadian investment bank headed in London by Mr Ian Steers, chairman of the International Securities Regulatory Organisation).

Then, in 1985, it linked up with Bank Cantrade of Zurich to form a joint venture company, Nivison Cantrade. Subsequently, this June, the venture company announced that it was expanding to absorb the £1bn UK fund management operation of R. Nivison, plus its corporate finance activities and gilts team. "As Big Bang approached, we felt the structure of Nivison would have to be changed to accommodate the changes we saw in the market," Mr Lyttelton said.

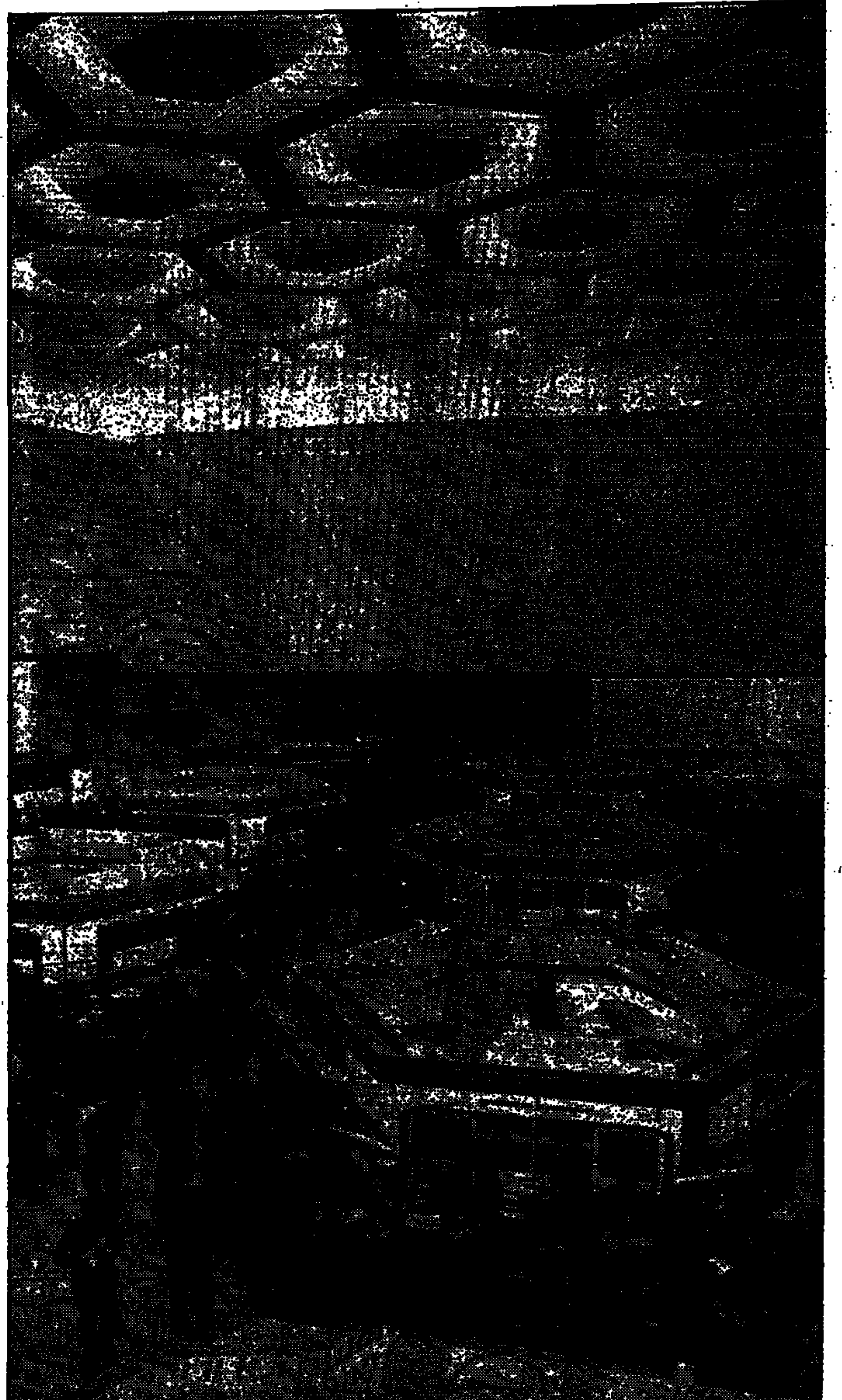
The arrangement was novel, he said, because the new Nivison Cantrade would be owned 65 per cent by the firm's 55 employees—rather than an outside financial institution—with Bank Cantrade taking a minority stake. The point was to preserve an entrepreneurial spirit in the firm which could be endangered if it were swallowed up by a conglomerate.

The different strands in the firm's history, however, have combined to make it fit a particular niche—as a specialist in fund management for institutional clients (primarily pension funds and insurance companies), with an emphasis on an advisory service in UK gilts, US Government securities, and European and Japanese fixed-interest securities.

"We won't be making markets," Mr Lyttelton said. "Ultimately, we want to be fund managers and fund advisers" (Nivison Cantrade has three actuaries as board members).

Nick Bunker

David Adams . . . keeping two or three niches to himself.



Hexagons above and below at the London stock exchange.

Boutiques

Wait till the cuffs are off

WHILE THE headlines have been captured in the past couple of years by the creation of big new financial conglomerates, the swing of the pendulum will not always be in this direction. Small, specialised firms can have considerable success in competing against ponderous giants so long as they can attract top-quality people and are conscious of their limitations.

Yet in sharp contrast to the pattern in the US financial markets, such "boutique" operations are comparatively rare in London. In the securities markets, one major reason must be that key professionals have usually been locked in with "golden handcuff" arrangements that still have two or three years to run.

Although these medium term contracts can be unlocked by front-end payments from rival firms, such largesse is, by definition, unavailable from shoestring boutiques. So it could be a year or two before the big final payments are handed over and such practitioners are able to consider their futures more freely.

When they do, it is a fair bet that many of them will have both the capital resources and the inclination to strike out on their own, to re-create the atmosphere of the small partnerships where they started out before being swallowed up into international investment banks. Many of them are likely to find it frustrating to be mere cogs in a global organisation.

At this stage, however, there is only a handful of boutique-style operations to give a hint of the kind of businesses which could become much more common in years to come.

The most striking move so far has to be Ark Securities, where mainly ex-Quilter Goodison staff have set up a somewhat cramped shop, specialising in European securities, on the second floor of Banque Nationale de Paris' King William Street offices.

What provoked the establishment of Ark? According to the new firm's Noah—Mr Andrew Boyle, the senior partner—it was "a revolt against incorporation, against being swept up into some enormous organisation and, with this, the ending of the partnership system." Hence, it was not Big Bang itself, but the changes in the ownership and structure of the broking fraternity made in the run up to it, that made the 16 founding partners of Ark decide to make their break.

Another, more closely Bang-related, boutique operation is First Equity, where Simon Cowan, Paul Henry, and Christopher Openshaw have set up an inter-dealer brokerage for equities. "Big Bang provides opportunities for smaller companies to operate, and inter-dealer broking for equities is so obvious that no one seems to have thought about doing it," said Mr Openshaw, perhaps optimistically, since at least one competitor hopes to be operational ahead of First Equity.

Inter-dealer brokers act as middle men between market makers—offering a screen-based service by which large volumes of shares can be bought or sold "efficiently, quickly and anonymously." Significantly, First Equity will not be taking positions or advising the parties involved.

Unlike Ark, First Equity is not part of the "Cazenove-led recidivism," as one critic described the partnership movement. "First Equity is not a partnership, it is a corporation and will be applying for corporate membership of the Stock Exchange," said Mr Openshaw.

However, while the Ark "revolt" may be considered part of a "small scale traditionalist backlash" by some in the City, Mr Boyle and his fellow partners insist that they are not the new romantics of the stockbroking world, rushing with starched white collars and studs back into the quill pen era. "We plan to operate in modern markets using the most up-to-date screen-based methods, but believe that retaining the partnership structure is better—both managerially and in cost terms," said Mark Hawtin one of Ark's partners.

Given the astronomical salaries being paid around the City, Ark believes that "a partnership is a wonderful way to keep operating costs down; and if there is, as many are expecting, a downturn in the market, then our cost base will be better contained," said Mr Boyle. In the start-up period for Ark, this will mean "no Ferraris in the partners car park," he said.

At present Ark employs about 40 people, half of them back-up, with the 20 in the "front office" split evenly between selling and research. BNP no doubt relishes playing host to those who jumped ship from Quilters shortly before the broker was taken over by Paribas, its great competitor back home, and is providing more than just office space for the new firm. BNP has allowed Ark to use its dealing licence, finances "on strictly commercial terms," Ark's open positions, and collects a fee as part of a commercial agency arrangement.

Once Ark founders had declared their intention, they had no trouble in recruiting staff. "I've got a pile of letters a foot high, and we have received an awful lot of expressions of goodwill," said Mr Boyle.

First Equity sees opportunity, not the difficulties, created by deregulation. "Without Big Bang we could not have existed," said Mr Openshaw. The idea of IDBs is not new. They exist in the US Treasury bond market and, possibly inspired by this, the Bank of England has insisted on having six of them in the UK gilt market. So far First Equity may be the only company formed to handle IDB for securities, but Mr Openshaw hopes that this will not be for long—"there needs to be competition, but no one needs an overbroked market—if we had 20 IDBs for securities, then they would in turn need inter-dealers for themselves." Three IDBs would apparently be an ideal number for the securities market.

The intention is to offer a dedicated screen trading service to all those who make a market in the 62 first-line, or alpha, stocks—at present there are some 30 declared dealers. Almost all of these have been offered the First Equity service, and "so far none have refused it," said Mr Openshaw.

The screens and equipment will be supplied and installed free; every client (that is, the market makers) will see highest bids and cheapest offers simultaneously; and the charges will be 0.5p a share on completed transactions, but only the responding party in a deal will have to pay.

"The IDB system is anonymous but not invisible," said Mr Openshaw. "By recentralising the market, we provide a vital service for recognised market makers in the stocks for which they are registered to deal."

Ark and First Equity are clearly very different creatures. While it has a lot of City sympathy, the US experience suggests that Ark may have to struggle to win and keep custom, although its point about overhead costs is not lost on the chiefs of the big battalions. First Equity, on the other hand, need worry most if its chosen niche attracts too many contenders.

Terry Povey

In February 1985
The Stock Exchange appointed
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How the future will shape up no one can predict with total confidence. But one thing we can say for sure.

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We, however, will be celebrating our third.

ROBERT FLEMING SECURITIES

Merrill Lynch has been in the UK for quarter of a century, initially as a securities retailer. Now, a fully integrated presence is a key factor in the firm's global strategy.

'London's the third leg of our stool'

IN THE middle of last month the "Thundering Herd" were in town with a vengeance. Mr William Schreyer took the chair at the first full board meeting of Merrill Lynch ever held in London.

"We thought it was very important for the board to have a feel for what is happening in London," says Mr Schreyer, who is chief executive officer as well as chairman of the giant New York securities group. "We thought that with Big Bang day approaching the timing was just perfect. When you get here you see the sense of it."

Merrill is just polishing up a new advertising slogan—"the world should know no boundaries"—and London is playing a key role in the group's global strategy, as indeed it is in the plans of all the major players in the international securities business.

A difference, however, is that Merrill Lynch has been in London already for around a quarter-of-a-century, admittedly only as a retailer of securities initially, but later as a broader business. "We started the plan several years ago to build a fully integrated presence," says Mr Schreyer.

Merrill became committed to an investment in all the infrastructure needed to support a large organisation. "That also means putting together the best group of talent—whether the talent be traders, analysts, salesmen or investment bankers, and lastly, but clearly of vital importance, the best management team we could put together."

Some 18 months ago, Merrill lured a well-known Eurobond expert, Mr Stanislas Yassukovich, away from EBC to be chairman of Merrill Lynch Europe/Middle East, in London; and earlier this year Mr Jean Rousseau was posted from New York as chief operating officer.

How do Merrill people worldwide see London? "As the third leg of a stool . . . London, Tokyo, New York. They look upon it as an opportunity," says William Schreyer. Falling naturally into the style of a *tough-talking salesman, he* thinks London is "pretty gutsy" to have taken its current changes on board so quickly.

"In New York, on Mayday 1975, all we did was deregulate fixed commissions, and the rest of it has been evolutionary, a piecemeal crumbling of the Glass-Steagall Act that's taken ten years. You're coming in bang! At once. In terms of our own side of the ocean, they hold everybody in London in great respect for having had the courage to do something which ordinarily might not happen for another 20 years."

Merrill Lynch has moved heavily into the business of 24-hour trading, initially by making markets in US Government bonds, but more recently also in close to 100 equities, where the market making responsibility shifts during the day from Tokyo to London and then to New York.

"We have to think in terms of a one-world market," says Mr Schreyer. "I think one of the best examples of seeing it all come together was the KLM offering that we did a few months ago.

"Here was a case of a Dutch airline which wanted to have a worldwide distribution of its equities, to individual investors as well as institutional investors, because it was not only the right thing from a financing point of view, but it was also a great marketing coup.

"As a global organisation, KLM wants to have owners all round the world, and with our distribution capability, and our vast sales force, we were able to lead manage that offer."

Although Merrill Lynch may not be the most profitable or fastest growing of the American securities houses, its retail network enables it to place securities with private, as well as institutional, investors; and uniquely it is a member firm of the Toronto and Tokyo stock exchanges as well as those of New York and (since last March) London.

But although Merrill has put all the parts into place, will it be able to make them work? Around 10 years ago it began to turn itself into an integrated securities business by building a capital markets division in New York; but it has never managed to achieve the enormous profitability in this area of Goldman Sachs, Salomon Bros or Drexel Burnham Lambert. Will the international story prove the same?

Stanislas Yassukovich is confident but takes nothing for granted. "We have an infrastructure head-start, in an industry where that infrastructure is the key to success," he says. "But we don't sell short our competitors."

He sees the group's wholesale retail split as an important advantage. "We can get the balance between big institutions, medium, small, and individual investors," he suggests. "That hasn't made a big difference in the Eurobond market, which is a very institutionalised market. But in the equity market we feel that achieving that balance is critical; and we have a unique private client distribution strength in Europe that our principal European competitors have chosen not to have."

Mr Yassukovich presides over a very substantial regional enterprise, with nearly 30 offices throughout Europe and the Middle East, including a bank in Geneva, and 1,600 staff of whom just over 1,000 are in London.

Uniquely among the American securities firms, Merrill moved into the London Stock Exchange well ahead of Big Bang, keeping a low profile in equities but behaving very aggressively in gilt-edged, where it grabbed a 15 per cent market-share at one stage during the early summer (easing back to around 10 per cent more recently).

For its pains, Merrill has attracted allegations in the market that it has lost huge sums, rumours which are strenuously denied. "I would have been amazed if the market hadn't have been full of rumours like that, because we developed a fairy rapid market share," says Mr Yassukovich. "We're very satisfied. We didn't expect to make a fortune on day one, and we haven't. But we've been perfectly comfortable."

Merrill joined the London exchange on the earliest possible date, because it wished to emphasise its commitment. Mr Yassukovich explains: "It was, if you like, a signal that we intend to play a full, integrated, role in the domestic as well as the international market in London."

And apparently the local firms in London should not derive too much ecouragement from Merrill's comparatively slow start in UK equities. "We are a very equity-minded firm. We have become very strong in bonds, but our soul has always been in the equity markets."

As chairman of the worldwide group, William Schreyer declares himslf fully committed to the global approach. "No longer can we fool ourselves and say that we're a US firm and the US is what counts. We have all to think in terms of a one-world market."

And what is Merrill's advantage? "We are the only firm in the world that doesn't have to compete with Merrill Lynch."

Barry Riley

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INTERVIEW
SIR JOHN NOTT

The former cabinet minister who is now chairman of Lazard Brothers tells why the merchant bank has refused to engage in the kind of purchases of Stock Exchange firms that have been favoured by its rivals.

Profit rather than size is still the target

Trevor Humphries

SIR JOHN NOTT, like his predecessor as chairman of Lazard Brothers, Sir Ian Fraser, is prepared to put forward a strongly independent—and sometimes outspoken—line on the way that the City Revolution has taken place.

Almost a year ago he caused a stir by arguing that the self-regulatory approach was a dangerous one for the City of London to be following, although he has subsequently turned down many invitations to develop the theme further in public.

He has not changed his views. "I think that the City has placed itself in an exposed political position, and the Bank of England even more so," he now says.

But these days Sir John is out of politics, despite having held important Cabinet posts between 1979 and 1983. As Trade Secretary in 1979, he took the decision to continue the restrictive practices action against the Stock Exchange's rule-book initiated by Labour's Mr Roy Hattersley.

For the past year or so, since becoming Lazard's chairman, he has continued to steer the merchant bank along the independent path mapped out by his predecessor.

In particular, Lazard has refused to engage in the kind of expensive purchases of Stock Exchange firms that have been implemented by rival merchant banks such at Warburgs, Kleinwort Benson or Hill Samuel.

One reason is that Lazard wishes to remain relatively small and flexible. "We don't really want to grow to more than 500 people or so in number," Sir John explains. "We felt that, in our traditional corporate finance advisory business, we could retain the advantages of a private banking house, and the personal relationships which are so vital for that, more easily if our numbers and overheads were kept restricted."

Lazard also decided that buying a British stockbroking firm would have been irrelevant to the need for distribution of securities in the international markets, "which are going to be more important as the years go by than the domestic market."

Sir John adds: "Thirdly, we felt that the prices being paid for the goodwill of these firms were excessive, not least the payment for goodwill with feet. Since these very large sums have been paid for these firms, many of the best people have left and moved on."

However, Lazard apparently does not take the position that the strategy of other merchant banks, in seeking to combine corporate finance and distribution, is misguided.

Nevertheless, it believes in building up its own small teams of secondary market traders and salesmen rather than in buying a big, ready-made broking firm with all kinds of different activities.

It already has an "immensely profitable" Eurobond secondary market team of six, which has turned over $10bn of securities within the past year. A similar team could be set up to trade equities, but the time is not seen to be ripe.

Sir John Nott insists that access to capital has not been an inhibiting factor. Lazard's shareholders, including the diversified conglomerate Pearson, and some very wealthy overseas investors, have been ready to subscribe for new equity. But the bank's executives have seen no requirement for extra capital.

"I'm convinced that we are making here, now, a much higher return on our capital than any of our competitors. That's what it is in our interest to do, because our remuneration package is ultimately based upon our return on capital. It's not based upon absolute numbers. The league tables don't actually make us money."

The model for Lazard's future, he says, could well be Lazard Frères, the New York sister firm which is "five to ten years further on in the revolution" and is "overwhelmingly more profitable in relation to its numbers and its capital than any of the big houses."

Lazard Frères hired a small equity trading group about five years ago, and now has a team of about 15 distributing the firm's corporate finance deals. But for the moment Lazard Brothers in London is happy to play the field in the domestic and international markets. "We might use Cazenove for one issue, if they are free, and Rowe & Pitman for another and a Swiss bank for another."

Meanwhile, Lazard Bros is actively developing its family relationships with the once fairly remote Lazard businesses in New York and Paris, with the aim of building transatlantic corporate finance business and distributing the national issues of the other Lazard units in the international market.

But the Lazard trio lacks any significant Far Eastern operations, and a Tokyo arm will probably have to be set up in due course to fill this gap.

Sir John sees further growth in the international markets, to the extent that the London Stock Exchange could have a difficult problem in retaining its predominance for capital raising by large British companies.

On regulation, he recognises that the City hopes, through self-regulation, to safeguard its position in the international markets by preventing the imposition of a stifling, legalistic regulatory system.

But he fears that the City has played shortsightedly into the Government's hands. "In my view, the City was unwise to promote the concept of self-regulation. The Bank of England was even more unwise to promote it.

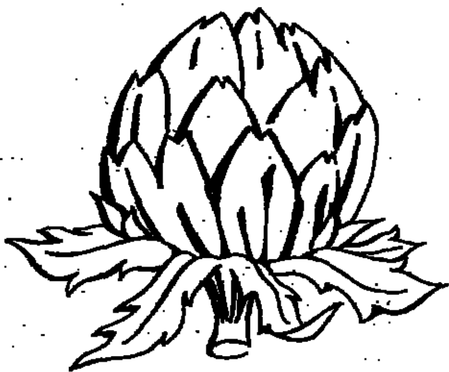
"When the next bear market comes there are going to be firms going bust. Politically, no one is going to distinguish between bankruptcy and fraud. The blame is going to descend upon the City self-regulators, and certainly upon the Bank, for failing to police the system."

He considers that the only practical way to devise a new regulatory framework may indeed have been to begin with a system of self-regulation based upon practitioner knowledge and regulation but then, at an appropriate moment, to have made it statutory.

"In the end we will have to have a legal authority which will be acting in the capacity of a court. You can say that the system which is being imposed in quasi-legal anyhow. The key way in which it is different is that the propaganda has been, from the Government and the Bank and the City, that this is a self-regulatory system.

"It's being presented as a system in which the City polices itself. Maybe that isn't the complete reality, but that's how it is perceived. I don't see it as being in the interests of the City to have fallen for this."

Barry Riley



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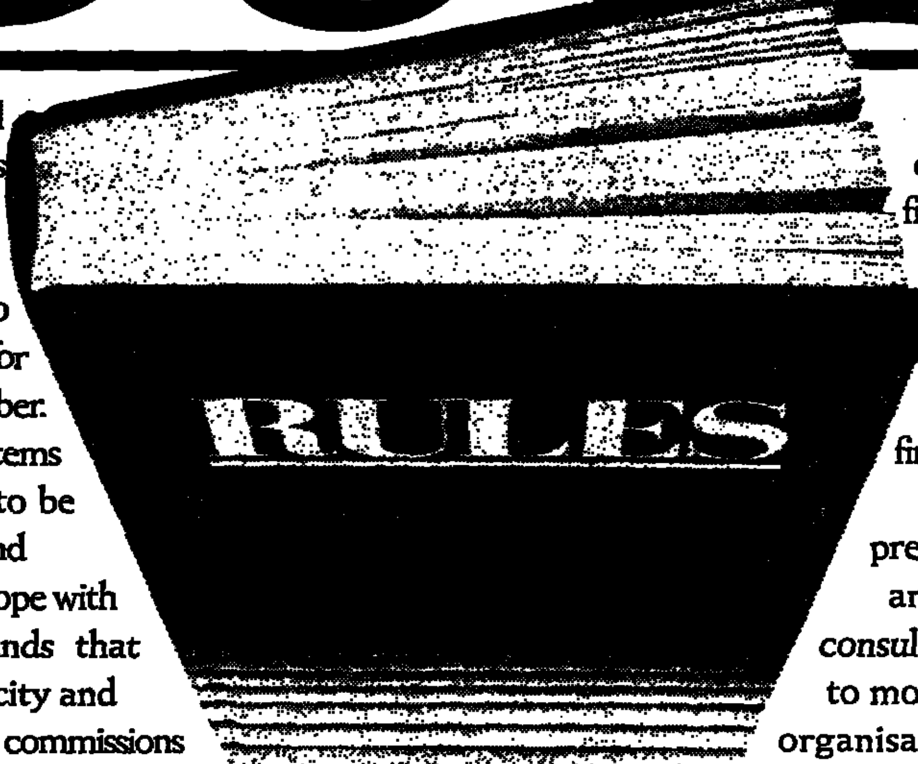

Financial institutions have put a great deal of work into preparing for 27th October. New systems have had to be installed and tested to cope with the demands that dual capacity and negotiated commissions are going to produce.

But unfortunately for everyone involved, the story doesn't end there. With all the changes going on in the City, particularly those to be imposed by the Financial Services Act, systems are not just going to have to work, they must comply.

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PROFIT FROM OUR SKILLS

The Square Mile is unusally generous with fringe benefits, including company cars for an impressively large number of employees.

Salaries

Bang boomers lift the average

"They're all on fantastic salaries." The bearded young man who spoke wistfully happened to be standing with his girl friend in the Stock Exchange visitors' gallery, goggling down at the crowded floor.

But you do not need to be in the City, even in London, these days to overhear such remarks. Throughout the length and breadth of Britain, the money paid to the Square Mile's working inhabitants is a little short of a legend.

It is a topic that excites sharply contrasting emotions. Not all are like the bearded man in describing it admiringly as "fantastic". Words such as "disgusting" are preferred by many including some prominent politicians, on grounds variously of egalitarian principle or personal envy.

If the truth, rather than the legend, were told a good many of those who feel envious are themselves on the City's payrolls. For although its staff as a whole have a noticeable pay advantage over people in comparable jobs elsewhere, there are spectacular differences between the best and the worst rewarded workers within the same Square Mile.

The average position is best indicated by the pay surveys made regularly by Mr Joe Clark, advisor to the London Banks' Personnel Management Group, which has a membership of some 300 assorted banks. He says that, although people employed in Britain have typically done fairly well since the end of 1981—with the overall earnings index up by 45 per cent, compared with the retail price index's 22 per cent—the City banks' staff have generally done better. As a result, when all ranks are taken together, the average pay is now about £16,500.

That figure, however, ignores the unusual generosity of the Square Mile's banks with fringe benefits, which evidently include cheap-interest loans for most employees and company cars for an impressively large number. Again on average, the perks have a value of about 30 per cent of the pay. So the average total rewards of the banks' staff as a whole work out at nearly £21,500—a figure which can scarcely be approached, let alone matched, by any other workforce in the United Kingdom.

"Mind you," Mr Clark says, "figures like those obscure more than they reveal. For example, there'd be heavy odds against going into the city and bumping into a real live individual who is actually being paid £16,500 a year. Most get less.

"The overall average covers a huge variety of grades. They run from recent school-leavers on £5,000 or so, through secretaries with shorthand who are usually getting £8,000—plus, to the City equivalent of astronauts sometimes soaring well into six figures. To complicate things further, pay often varies widely, not just from one grade of work to another, but between people doing the same job in different circumstances.

"There's a merchant bank I know of which has three bond dealers, two of whom have been with it for years and the other recruited recently. Their average salary is £56,500. But the long-serving pair are respectively on £34,000 and £35,500 whereas the newly appointed one gets £100,000."

The Personnel Managements Group's adviser also cites the differences in the pay rises typically received by different subsectors of City bankers between the February of 1982 and this year. That, of course, is to most intents and purposes the same period during which the UK overall earnings index rose by 45 per cent.

"General Banking" staff, including clerical workers and supervisory people in credit departments and the like, had an average increase in total money pay of 57 per cent. The corresponding rise for foreign exchange dealers and treasury specialists was 74 per cent. The figure for the so-called "bang boomers" — management - level staff in investment banking and capital market activities—was no less than 176 per cent.

They did three times better than the less fashionable managers in administrative and support work, on whom banks of all kinds much depend. They averaged a four-year rise of only 54 per cent.

Differences between such subsectors have in several cases been widened by the most recent pay increases. These have been brought in during the six months to August 1, when most banks evidently finalise their annual awards. There is, therefore, likely to be little further overall rise on the February-August figures until spring 1987.

The capital market area is again among the top beneficiaries, together with the higher-grade fund management and equities people.

"In those specialisms, recent increases of 20 per cent seem to have been fairly commonplace. On the dealing side, in foreign exchange and money management, the usual figure looks to be about 15 per cent, and key data-processing staff are only about two percentage points behind," says Mr Clark. "In most other activities, the pay has gone up by 6.5 to 8.5 per cent."

While he refuses to quote indicators of current money rewards for particular kinds of job, there are fortunately other sources from which it is possible to assemble at least a rough idea of average going-rates in some subsectors.

The league is headed by Eurobond and investment chiefs, apparently averaging between £70,000 and £80,000 when bonus payments are added to salary. Not far behind come the leaders of new business development activities whose mean is around the middle of the £60,000-£70,000 range, with corporate finance chiefs £5,000 or so lower and foreign exchange managers and the like about £5,000 lower still. The overall average among executive rank staff, down to internal auditors and investment analysts, seems to be between £35,000 and £40,000.

The extent to which the total money rewards are made up of results-linked bonus, as distinct from salary, varies widely with the type of job. On average, in capital market dealing and sales activities the bonus can represent 20 per cent or more of the total. In other dealing activities the bonus element typically ranges between 15 and 7 per cent.

By contrast, in administrative and support types of management, such as internal financial control, the bonus still usually constitutes only a small proportion of the total—2 to 3 per cent.

Michael Dixon

Their cars and their money

Price range of car	Pay threshold for entitlement
£6,500-£9,499	£22,192
£9,500-£11,749	£27,608
£11,750-£14,499	£32,950
£14,500-£16,499	£49,239
£16,500 upwards	£69,699

City banks now give company cars to staff whose total pay, including bonuses, exceeds about £22,000. The table shows the average remuneration at which staff receive cars in ascending price ranges.

Jonathan Wren

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Traders

A job for the individualist

4 MARKET PEOPLE

High salaries and high risks dominate the employment picture in the new securities markets. City professionals have had to adapt to much more demanding working conditions, spending long hours operating new and often unfamiliar high-technology equipment.

TRADERS HAVE found themselves in a sellers' market with the approach of Big Bang. Their own talent as risk-takers at the heart of financial markets has been the commodity most in demand as firms readied themselves for their new roles in the markets.

With the Stock Exchange now containing 27 market-making firms in gilt-edged securities, instead of two major ones previously, and dozens of market-making firms in equities instead of the former handful of jobbing firms, the need for individuals to make markets is obvious.

Not that there are not already large numbers of market makers in London. Though the Stock Exchange has kept their number down through its bar on acting as both principal and agent—removed today—they exist in abundance on other markets.

The Eurobond market, for example, saw $2,200bn of trading last year, the majority of which was done through London. There is a rapidly growing market in US, Japanese and other foreign government securities in London. Discount houses, money brokers, banks and futures houses have always made markets as part of their day-to-day business.

Furthermore, the leading jobbing firms, though few in number, were large in size. And some far-sighted firms have been taking advantage of the early introduction of dual capacity in the international equity market. They have developed market making teams which have gained important experience in foreign stocks which will be usefully applied to the UK domestic market. So, along with some infusion of talent from Wall Street and elsewhere, there has been a ready pool to draw on for the new financial conglomerates seeking to create market-making teams.

Nevertheless, traders have been able to capitalise on the demand. Many have moved in a salary spiral, which has attracted to the City much publicity that it would prefer to have avoided. Over the lunch table, most managers of the new teams will say that they are not prepared to pay over the odds for traders, that they don't want the egotism that goes with a six-figure salary to a trader not much more than 20 years old.

But the fact remains that many large salaries are being paid, though they are probably not out of line with those being paid in New York. It must also be borne in mind that it is the big names who earn the really big bucks, with the general level of pay remaining more mundane.

So what are the talents that enable traders to justify their salaries, whether exalted or not?

Market marking is an individualistic pursuit, involving at the outset innate, rather than acquired, abilities. There must be a natural feeling for prices and numbers, a quick and agile mind. The trader must be aggressive in taking a position in the market, but dispassionate enough not to get carried away by it. Despite the need for independent thought, the good trader should have the humility not to persist with a loss-making position, to put the customer's concerns ahead of his or her pride, and to get on with fellow-members of a team.

Traders take many forms depending on the market they are in. In some, the norm is to make $\frac{1}{32}$ of a point here, $\frac{1}{16}$ there—relatively unglamorous grafting. Some traders like the grander gesture, and some of these could be seen in the gilts market, as houses attempt to build up market share in intense competition. Such higher-risk strategies will undoubtedly make and break not a few careers in the coming months.

In the UK stock market, the building of a market-making team is not as simple as just hiring a few experienced jobbers. For, just as traditional stockbrokers are accustomed to acting as an agent and not as a principal, so the reverse is the case for jobbers.

Jobbers are used to taking positions in the market for themselves based on their own knowledge, opinions and hunches, and waiting for investor demand to justify them. In the new world, market makers will have to respond more closely to customer's needs, to find the other side of a trade more quickly, and to integrate more closely with their close colleagues in sales and research.

Other qualities are required, too. Mr Richard Priestley, head of UK market making at Barclays de Zoete Wedd, says a trader "has to be an individual who is trusted by the people he deals with." In addition, he must have "that flair which enables him to turn down business rather than do everything that is put to him."

More than that, Mr Priestley says, the good trader should have a detailed knowledge of the stocks he is trading, developing strong contracts and reading everything that is written about the companies concerned.

This does not really contradict the general view that the trading mentality is innate, not taught. "There is no known training except to do it," says Mr Jack Wigglesworth, head of gilt sales at Lloyds Merchant Bank. "You've either got the feel or you haven't."

Mr Brian Williamson, chairman of the London International Financial Futures Exchange and a director of Gerrard and National, says a trader must have mathematical ability and aggressiveness. "The trader needs continually to be excited by the market. The only way most people do it is by taking the market on." This sort of kick, he believes, is a more powerful motivator than the money a trader earns.

Market makers seeking inspiration could do worse than look at the Eurobond market, which has been absorbing some of Britain's youngest and brightest talent in the past few years. A noted Eurobond dealer, Mrs Valerie Thompson of Salomon Brothers, says the good trader does plenty of homework on what makes the price of each individual security move, and who is likely to buy or sell it; takes nothing for granted, and asks a lot of questions; "is never led by what appears to be going on on the street"; knows when to cut losses on a position; and does not trade on ego.

"A lot of people think it's their own money that they're handling," she says. Though she acknowledges the need for gut feelings about the market, Mrs Thompson sees no substitute for hard work on learning about the securities being traded.

Though trading is demanding and intensive, most people believe that the common cliché about traders burning out at 30 is a myth. One gilt dealer, surveying his dealing room, comments: "If people burn out, then we're all already dead."

Alexander Nicoll

Managing people

Time for an administrative overhaul

THE CITY has never been slow to criticise the quality of British management. In running their own affairs, however, most City firms have traditionally regarded management as an alien and uncomfortable concept: something for the Midlands industrialist, but inappropriate for professionals bound by a partnership ethos and a shared concern for the annual bonus.

So long as everyone played by more or less the same rules in a cartelised and protected environment, not much conventional management expertise was needed.

The mergers of the past three years have dispelled any possibility of continuing with this attitude. The new capital market conglomerates have brought together widely disparate organisations that lack the stabilising and reassuring influence of the old partnership structures. In this environment, the disciplined management of human resources is not an incidental task, but a central professional priority.

But it is not just the different and sometimes conflicting objectives of new corporate owners that are forcing change. Increasingly, globalised competition both on the demand (client) side and also on the supply (recruiting) side is testing traditional organisational structures and people-management systems.

The rapid proliferation of new financial instruments such as swaps, futures and options, has created huge skill shortages that cannot continue to be filled in an ad hoc manner by poaching from competitors.

Equally, securing enhanced capabilities in the classic Cinderella functions, such as systems and back office administration, is a crucial task. Even modestly substandard performance in these areas can now be a knockout factor in retaining institutional loyalty, as clients increasingly discriminate between securities houses.

In parallel, the traditional expertise of many seasoned market practitioners is becoming obsolete. There is less room for the amateur, undisciplined approach to client service that has characterised too many traditional trading relationships.

In this environment, an inability to manage human resources effectively will be heavily penalised. Not surprisingly, many leading securities houses are carrying out a basic overhaul of management practices. In this drive for improvement, four elements are increasingly critical for success:

1 Innovative recruiting: Developing an imaginative formula for attracting top talent is now essential. For all the leading participants in the London markets, growth is constrained by a shortage of key personnel.

But effective recruiting requires as much strategic forethought as serving clients successfully. Breaking ranks on graduate hire compensation levels may buy a temporary advantage. But leapfrogging by competitors quickly makes this a zero sum game.

The real challenge in the recruitment process lies in more accurate definition of the organisation's needs. The tradition of the Oxbridge milkround to spot articulate and presentable candidates, is simply too imprecise an approach.

The real challenge in the recruitment process lies in more accurate definition of the organisation's needs. The tradition of the Oxbridge milkround, to spot articulate and presentable candidates, is simply too imprecise an approach.

The London market has yet to see the aggressive search for the so called "rocket scientists"—leading edge mathematicians who have been eagerly courted by Wall Street, to design the latest generation of arbitraging and hedging techniques. But it is certain to come, and such candidates will typically not be found through conventional sourcing techniques.

More thinking will also have to be devoted to identifying the good potential trader. Hiring mistakes are costly, and more disciplined screening techniques are currently a major need.

2 Creative career path planning: In most broking firms, career development has been essentially unplanned. A typical route to the top has been to work within an individual function—such as research, dealing or institutional sales—until client recognition and ascribed commission justified elevation to the partnership.

Thereafter, election to the critical position of senior or managing partner has been typically based on a consensus judgment of managerial, administrative, and leadership skills.

Such an approach will no longer be feasible in the future. Within the newly-merged capital market organisations, the boundary lines between broking and banking activities are increasingly blurred, with an integrated Treasury function assuming an ever more central role.

This developing trend carries two implications. First, product specialists will always be required, but there will now be a need for more generalists, with a direct feel for the interconnections between different market sectors. A well planned approach to job rotation will therefore be important.

And second, the task of integrating successfully with a new parent organisation—whether based in the UK or abroad—will call for more general management skills. It will, therefore, be important to ensure that at least some high fliers have exposure in more than just one of the critical disciplines—even if this involves painful short-term decisions to move successful commission earners into new roles.

3 Rigorous performance assessment: Formal appraisal systems have been neglected in most broking firms and investment houses. Where they exist, the focus has typically been confined to an assessment of quantitative measures, such as commission income.

In the new market environment, this will no longer be sufficient. Already, in the most sophisticated firms, senior managers and partners are increasingly being assessed against their contribution to the firm's strategic objectives, such as new product development, recruitment, the opening of new offices, or introduction of advanced technology. Typically, these objectives, and associated responsibilities, are set out and agreed in the firm's operating plans.

The motivational impact of appraisal is greatly strengthened if it can be linked to remuneration. In the deregulated competitive environment, financial service firms have no option but to pay their top performers the going rate. If they do not, someone else will. However, this can only be accommodated economically by linking pay to performance. By contrast, many stock market firms, and indeed other city institutions, still heavily weigh their remuneration packages in favour of long tenured partners/managers who may or may not be high performers.

It will be increasingly necessary to differentiate between tenure-based remuneration and performance-based remuneration. Unless firms bite this bullet systematically, they will run the continuing risk of losing their best people and exacerbating the culture clash between high performing (and often younger) individuals and the lesser performers.

4 Effective motivation: High performance in financial service firms is heavily dependent on the motivation and commitment of the individual. Building commitment is correspondingly a key managerial task.

People can be committed to a number of goals: to their own success, to their clients, to their colleagues. The most successful organisations, however, are characterised by the commitment of their staff to the institution itself, and the values it embodies. Outside the financial services field, IBM, McDonalds and Procter & Gamble are classic US examples. All these firms invest heavily to reinforce this commitment, through induction and training programmes, promotion decisions, and repeated communication of firm values. The result is a stronger, unified culture, reduced staff turnover and improved performance.

Top management can set the framework for this commitment building by shaping the corporate strategy and mission of their firms and spending the time to communicate this mission and the associated values down the line.

It is a City cliche that a service firm's key assets go down in the company lift every night. The truth behind the cliche is that these assets require active management—now more than ever.

Ian Davis
McKinsey & Co

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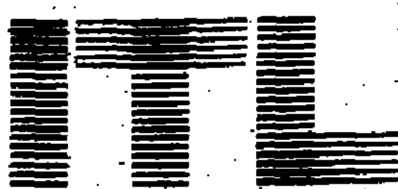

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Culture clashes

Increasing emphasis on shared goals

COCKNEYS versus Hooray Henries is a lively billing that has been promoted by more than one commentator on the Big Bang. But as a summary of the "clash of cultures" facing the City's new financial groups, it seems a better cue for gossip than useful analysis.

Various profound changes are now being confronted by many participants in the Big Bang—as by other financial institutions in the US in recent years—similarly increase the dangers of cultural dislocation, demanding an ever-increasing emphasis on explicit corporate goals.

Take, for example, the implications of a shift of emphasis from one activity to another in the core businesses of a financial institution. Some consequent problems have already been evident on Wall Street and in the City of London, ahead of the Big Bang.

Two shifts have been particularly notable. In commercial banking, computer systems have assumed a level of importance wholly disproportionate to the influence typically wielded by back office boffins only a few years ago.

Ironically, the impact of computer frauds has played some part in jolting traditional attitudes to the systems expert. Less sensationally, senior commercial bankers have had little choice but to acknowledge the central operational importance of systems—and therefore of the executives who manage them and promote them accordingly.

The second conspicuous shift, most evident in the investment banks, has lifted the trading function as a source of profits at the expense of more traditional products in the corporate counselling area. Nowhere have culture clashes been sharper than in the traders-versus-counsellors arena, as chronicled most dramatically in the decline of Lehman Brothers Kuhn Loeb. This famous Wall Street partnership was torn apart in 1983-84 by the inability of the partners to accommodate the changed ambitions of its traders and counsellors.

Again, consider the threat presented to any sense of shared corporate values by an uncompromising change in management style. Ideally, the threat is deliberate and timely, galvanising a corporate overhaul and winning a positive response from most executives. When Mr John Harvey Jones first toured ICI's overseas offices as the new chairman of the chemicals giant, he made a point of (literally) throwing the occasional in-house book of rules through a convenient window. His challenge to the prevailing ICI culture proved successful, but not without upheavals along the way.

Mergers between the various brokers and bankers have brought a need to promote shared values, to cope with differing operating styles within the same organisation.

Such abrupt changes of management style have rarely been attempted in the City. The cautious nature of the banking profession itself and the preponderance of family or quasi-family cultures has deterred most protagonists from sharp change—though not always without some public acrimony, such as accompanied divisions in the house of Rothschilds a few years ago.

This contrast between industry's ways and those of the City has a parallel in their divergent approaches to another, and probably the most crucial, source of cultural clashes: mergers.

When one industrial enterprise acquires another some "cultural imperialism" is generally the order of the day, whatever the top executives may choose to say in public. A dominant vision of the joint enterprise therefore has at least a fighting chance of asserting itself.

What perhaps threatens to make so many looming culture-clashes in the City genuinely damaging is that mergers between the various brokers and bankers have been commonly struck since 1983 on the basis that each side's working ethos will be entirely respected by the other. Disparate operating styles within the same organisation, though, may breed just the same problems in the City as they frequently do in industry: blurred responsibilities, ambiguous controls and a general lack of focus in the merged company's objectives.

A first step must surely be to acknowledge that some tensions are inevitable given, say, the differences between merchant and clearing banks. Many have by now been well-aired; for example—

- **Merchant banks** have flat hierarchies. The top men are essentially practitioners of the product skills that dominate the business. Financial incentives are a key motive, with rapid progress, specialisation and high levels of personal automony sought by most individuals. Strategy is viewed in a short-term context for the most part, and financial results are accepted as inevitable.
- **Clearing banks** have pyramid hierarchies: the top men are administrators of businesses requiring extensive management skills. Security, clearly-signposted career paths and an environment tuned to consensus-making are expected by most employees. Strategy is primarily seen as a long-term concern, and a premium is set on consistency of performance.

Recognising these natural antipathies, sound managerial disciplines have to be adopted to bind the organisation together.

The process of formulating future strategy has to be used to help build consensus and mutual trust between senior executives. Designing the organisation becomes a critical activity, not just a series of committees meeting to iron out compromises which might placate prickly personalities. Above all, perhaps, the recruitment, training and career development of emplyees assumes key significance as a vehicle for team-building.

And as for that all-important sense of a common goal, perhaps many of the Big Bang competitors can best be likened to married couples. When the initial romance and excitement of marriage has subsided, those that succeed will be those which do not take too much for granted.

Paul Coombes
McKinsey and Company

Alan Harper

An earlier start and later finish to the working day could see the City increasingly functioning in shifts to catch other time zones — reflected here by the 24-hour water clock in the NatWest Tower entrance hall.

Working hours

A longer day keeps lights burning later

THE STATION-MASTER at Cannon Street noticed that something odd was happening in the City about a year ago: the rush-hours were moving perceptibly earlier every morning, and later every afternoon. In such far-off places as Tonbridge, British Rail found that passengers lost to coach services were returning to the railway, evidently because the coaches did not start early enough.

In at least one stockbroker's boardroom, lunch is not what it was. "Nowadays," a senior analyst remarks, "a bottle of Kümmel lasts a month. In the old days, it was lucky to last half a lunch-time."

In no other area, except arguably salaries, has the City discounted the changes of Big Bang so eagerly as in the hours it works. The public image of the City, where men could make large sums of money on little effort and smaller ability, may not have changed much. But the days when a stockbroking partner could take the 10.30 up, lunch in his club and leave on the 4.10, are well and truly past.

Indeed, as the stockbrokers' morning meeting, where salesmen are briefed by analysts, moves ever earlier, the advantages of living in the country turn to liabilities. At Smith Newcourt, which includes the old stockbroking house of Scott Goff Layton, analysts need to be in before 8 am for an 8.15 meeting. "Some people have to start their journey from the country at 6 am," says Mr Mike Unsworth, head of oil research.

At the other end of the day, not only analysts—who always tended to work irregular hours—are staying late. Salesmen and market makers will be lucky to be out of the door at 5.30 pm.

Even without the Big Bang, London would have worked harder. The recent bull markets, and the attendant takeover activity, new issue boom and sales of state assets, have kept lights burning later in merchant banks and the corporate finance departments of stockbroking houses for three years or more.

But as the demarcation lines round the equity and gilt-edged markets have become less visible, market operators have come increasingly into contact with such industrious cultures as the Eurobond market or American investment banks. In the process, hard work seems to have become a virtue in itself.

Miss Sue Graham, who left a UK stockbroking house for Merrill Lynch, finds the day starts early enough, with market-makers and traders in by 7.15 am. "People start early but leave on time. But there are people around the City now who work excessive hours just to be macho or out of worry."

The Stock Exchange floor will be open long hours by European standards: from 9 am to 3.30 pm. But since there is no requirement to trade during hours, there is nothing to stop holders and buyers being matched at midnight.

Indeed, it is conceivable that those with large and touchy trades might wish to do them outside even the time of the automated quotation system (SEAQ), which operates from 8 am to 8 pm and carries the obligation to report the trade within five minutes.

But the main force extending the London working day is the increasingly global nature of investment policies and securities trading. With trading books likely to pass from Tokyo via London to New York and back again every 24 hours and analysts required to watch overseas markets as closely as their home market, the new integrated securities houses that have sprung up in London will increasingly resemble manufacturing operations on shift-work.

Inevitably, there will be times when the person who comes in to catch the last of Tokyo trading at 7 am will be taking orders from New York at 10 pm.

Whether this excess of diligence will lead to an improvement in the product is open to question. Mr Unsworth says that there is no point in salesmen coming in at crack of dawn if their institutional clients keep more English hours, as is still very much the case. And there may be no net gain in efficiency. "An early start makes people stale as the hours drag on. There may well be more work but less enterprise," he says.

Mr David Porter, head of gilt-edged trading at Hoare Govett, takes the opposite view: "Salaries were just too high for too little effort. Effort is now catching up with salaries. In three months' time, you will probably find that the market-makers at least are starting even earlier and finishing later: from 7 am to 6.30 pm, probably." He admits, however, that he falls asleep in the afternoon at the weekend.

James Buchan

Systems specialists

Well-qualified computer staff in short supply

A YOUNG computer programmer applied for a job earlier this year with the financial systems department of one of the UK's largest software houses.

His practical experience was limited to 11 months working on basic applications in a City stockbrokers' offices. As the company's managing director said: "He was a promising programmer, but he had little experience of the City. He probably did not know the difference between a stockbroker and a stock jobber."

Yet he was asking for (and determined to get) £15,000 a year, perhaps double his real market value.

He got it. Not with the software house, but with a City firm desperate to enlarge its in-house teams working on systems for Big Bang.

This story has been repeated many times over in the past few months as firms have become increasingly nervous about their ability to complete their systems on time.

At the beginning of the year, computer systems analysts, the people who break down a customer's requirement into manageable pieces and design the computerised version, could command £25,000 a year in the City, £11,000 more than would be normal elsewhere.

Now the pressure has, for the most part, abated, there is some scepticism about whether such salary levels can be maintained. Most firms, however, are already looking towards their next generation of trading and settlement systems, so there is no real reason to suppose there will be any shortage of work in the City for experienced financial systems experts in the foreseeable future.

Ms Dana Clark, a recruitment specialist at PA Management Consultants, says the ideal systems specialist being sought for plum City jobs is probably between 27 and 33 years of age, with experience of major development projects and a high level of professionalism.

Such a paragon could probably demand a basic salary of £35,000. Ms Clark says that basic earnings are frequently boosted by "golden hallos" and—at least in the period up to Big Bang—fixed bonuses of £15,000 or so for successful completion of the project on time.

There is, and has been for at least a decade now, a significant shortage of well qualified computer people; and the resulting scramble for good staff has hit the software houses, other London companies and the Stock Exchange itself.

In the early part of the year, the exchange had to "warn off" its members from poaching staff from its large and very experienced development teams.

There has been a definite time pattern to the demand for certain kinds of specialists. In the early part of 1985, City firms, many of whom were having to put together an automation strategy for the first time, were looking for project directors to set the overall sense of their computing activities.

By the end of the year, project managers, with experience of City trading and able to control and direct junior staff, were in great demand. And in the middle of this year, there was "frantic" demand for systems analysts and programmers.

Many firms turned to "systems integrators"—software houses with all the skills necessary to put together complete turnkey solutions—to help them out of their difficulties.

David Minkoff, head of the securities division at CAP, said that large software houses found it comparatively easy to put together a project team from their pool of talent. The challenge was in the timing. "For a typical financial project, we would need a tip-top project manager—and we have plenty of those—together with a string of specialists," he said.

"We would probably need an expert in local area networking, the technology used to transmit data at high speed through a dealing room. We would need somebody who knew all about IBM personal computers, and somebody who knew about connecting personal computers to a variety of mainframe and minicomputers.

"If we were going to develop the customer's application using an automatic code generator, a fourth generation language such as Ingres, we would need a specialist in that area. And to tie the whole project together, we would need somebody who knew the market—securities, gilts and so on."

Mr Minkoff went on: "But all these specialists would not be working on any one project simultaneously, and the skill is in interlocking developments so their time is used effectively."

Where large, expensive and time-critical systems are being developed, there seems little doubt that such extensive specialisation can pay dividends. Simple underestimates of capacity could result in a delay in response time—the time from when a key is hit until something happens on the video-screen—of 20 seconds. Fortunes have been made and lost in half that time.

The success of the London stock market will continue to depend heavily on the quality of the computer specialists it can recruit. And, oddly enough, money alone will not be sufficient to guarantee that. Computer specialists are at their best working on new and novel projects, and at their worst, maintaining old systems. It will be up to the City to see that their interest in its progress does not wane.

Alan Cane

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Working with VDUs

Little evidence of real health risks

UNTIL NOW office automation has affected mainly lower-paid secretarial and administrative staff, with the emphasis on speeding up existing tasks and procedures.

But after Big Bang, almost everybody will be expected to operate keyboard terminals and screens. This will raise management expectations for improved productivity, and ergonomic considerations will come into play.

The effect that visual display units (VDUs) may have on eyesight has aroused more heated debate and controversy than any other component of office equipment.

Various scares have come at different times over the last decade about VDU usage, not only in relation to eyestrain, but also to the perceived danger which radiation from the VDU's cathode ray tube (CRT) may have on the unborn foetus in pregnant women.

More recently, CRTs have been linked with skin rash. But according to Brian Pearce, of the school of Human Sciences and Technology (Husat), at Loughborough University, there has been no hard medical evidence that CRTs are detrimental to people's health in any of these cases.

The experts even disagree over the use of the term "eye-strain," saying that lay people often confuse it with temporary discomfort and tiredness of the eyes, rather than any permanent damage.

VDU operators often complain of headaches, backaches and other muscle aches, as well as eyestrain. Pearce argues that factors other than CRT radiation also have an effect, including incorrect seating posture, glare from reflected lights off the CRT screen and other shiny surfaces.

"The City is just waking up to computers, but the banks are already quite knowledgeable about these issues," he says.

The National Westminster Bank has published its own guidelines for keyboard operators, based on the Health and Safety Executive's publication, "Working with VDUs."

It covers the ergonomics of workstations, including chair adjustments, the importance of keeping the screen clean with special anti-static cloths, and so on. It recommends regular eyetests and allows visits by operators to an ophthalmic optician during the working day if they cannot see the screen clearly.

The guidelines are currently being updated to advise operators how to prevent straining their wrists, a condition known as tenosynovitis, as well as other areas of the body from the neck downwards, including the elbows. It recommends certain arm exercises that users can do from time to time during the day.

"Nowadays, manufacturers supply screens with high refresh rates providing sharper, flicker-free and stable images, and this helps to reduce tiredness on the eyes," says NatWest's Dr David Murray Bruce.

"People have also complained that looking at green screens has made them see pink afterwards. That is a purely physiological reaction. One needs to be able to reassure people that no harm is being caused," he adds. "It is important for people to have their eyes checked periodically, but there is no need to make any other special arrangement, because CRT screens are not going to cause their eyesight to deteriorate.

"Certainly, from the age of about 40 onwards, when a condition called glaucoma can creep up, it is important for them to have their eyes tested about every two years or so, but the screens themselves will not cause glaucoma. Glaucoma is a process of increased eye pressure. If you let it go on undetected, you lose the outer visual fields and end up with what is known as 'tunnel vision.' Ophthalmic opticians have equipment to check for this condition simply and quickly."

The use of tinted spectacles has also been mooted as a counter-measure to eye fatigue, but Dr Murray Bruce believes it is more important to look at the way the VDU screen is set up than to prescribe tinted spectacles.

"If you cannot get rid of glare from a screen, it is better to fit a filter over it," he adds.

Whether or not VDUs cause eyestrain, any reasoned argument in favour of them is not helped by flippant remarks, occasionally made by managers, to the effect that children watching television are exposed to the same dangers.

People watch television from some distance and look at moving pictures on the whole screen, whereas VDU operators sit much closer to the screen, peering at a much smaller area on a static display, typically made up of alphabetical and numerical characters formed by a matrix of dots.

Some companies are trying to develop alternatives, such as liquid crystal display (LCD) to replace CRT technology, but these are still too expensive and/or too slow.

The increasing use of colour also helps to keep CRT technology out ahead of the rest, particularly when combined with screen graphics. A lot of information can be coded in colour. Red for example, can be used to show dealers when a trading or lending limit has been exceeded, or when the price of some instrument or commodity goes below a specified level.

Keyboards are more likely to undergo changes. So far, attempts to design ergonomic keyboards have merely entailed cosmetic changes to the existing QWERTY layout, using, for example, sculptured key-switches so that the rows of keys are shaped as a trough. The QWERTY keyboard was designed primarily for text input, something which dealers and traders are not generally expected to do.

One alternative which is rapidly gaining favour is the digitising tablet, a flat electronic pad upon which overlay stencils may be placed, illustrating information, such as the names of the parties the firm usually trades with, the size of the transaction, the currency, geographical location, date of delivery, and so on.

When a trade comes in, the dealer taps the relevant boxes with an electronic pen. For example, a trade could be entered as "BankAmerica, 10 (million), DMarks, Frankfurt, 6 weeks," etc.

The use of digitising tablets allows numerous functions to be selected rapidly by the dealers, something which would take much longer if they had to key in details on a standard keyboard.

Turning to the question of seating posture, most executive chairs are designed for an upright seating posture. A typical executive chair can tilt back only if the feet are pushed against the floor and this position is only suitable for relaxing. One has to lean forward to change the centre of gravity in order to do some work.

Lucas Mellinger, an architect who is currently researching alternative seating postures, argues that the maximum rest area in this position comes from the back of the pelvis and from the knees, but does not include the thighs. The load is therefore not spread evenly, causing unnecessary stresses on the spinal column, particularly at the base of the neck. Furthermore, the shoulders are humped and the lungs are contracted.

Some brochures illustrate the S-shape of the spine, but Mr Mellinger argues that this is relevant only to movement in activities like horse-riding or driving a car, in which case the S-shape of the spine can take the jolt.

Dealers will be expected to work under conditions of intense pressure, and, apart from any potential health hazards resulting from exposure to VDUs, their total working environment, including seating posture and lighting, will need to be carefully examined.

They are in a strong position to demand office furniture with anti-glare work-surfaces, used in conjunction with more subtle background lighting than the demanding fluorescent glare usually associated with offices.

Boris Sedacca

Visual display units have transformed the City. These are in the international dealing room of Morgan Guaranty. *Trevor Humphries*

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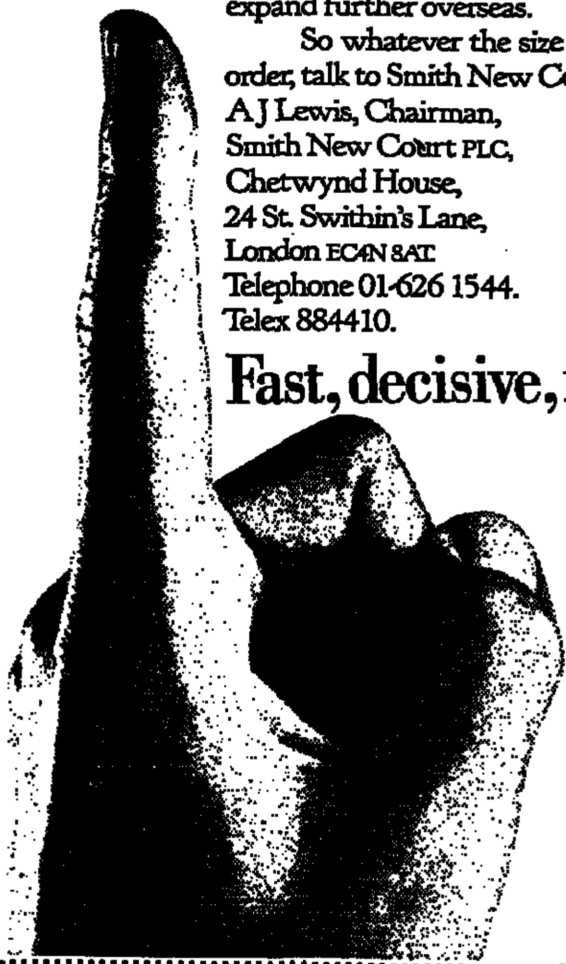

Headhunters

'After the Bang wait for the big write-off'

WHATEVER MAY be said about the headhunters involved in the City's recent headlong recruitment, they can certainly not be called "Hooray Henries." To judge by their general expectation of what will start happening in the fairly near future, they might better be named "Dismal Johnnies."

With few exceptions, they predict that the Big Bang will come to seem as nothing compared with—as one termed it—the "almighty wallop" that will follow 18 months or so from now.

The consensus is that, instead of signing people up, the Square Mile will then mainly be writing them off. Numerous organisations which have recruited in order to invade new territories will be repulsed, and smartly cashier their beaten forces. Competition for the occasional vacancies will be sharpened by the arrival, at full operating proficiency, of the graduate trainees engaged over the past couple of years.

"That is not to say all kinds of staff will be equally slump-struck," I was told by one headhunter. "The probability is that the worst reverse will be felt by capital-markets and securities people. They have hyped themselves outrageously up to now and, to be honest, a fair number of them are doing very nicely for themselves without being any great shakes at the job. But good luck to them. They will not get much sympathy when they are shaken out."

It is also probable that the shaking out will be applied to the headhunting trade. In the sellers' market, not all recruitment consultants have been scrupulous about the service they provide for their fees, which are typically about 30 per cent of the starting salaries of people recruited through their agency.

There have even been complaints from City personnel staff that certain headhunters have actively hyped the market. The established rule is that they wait until employers ask them to fill jobs before approaching suitable people working elsewhere with the offer of a lucrative move. But some consultants are said to have been going to contentedly-employed key specialists and infecting them with wanderlust, before selling them to some other organisation.

All of the dozen headhunters I talked to agreed that some of their breed had indulged in that kind of practice. One said it was surely no worse ethically than a bank going to a company, selling it the idea of taking over another outfit it did not previously know it wanted and which was certain to resist, and then taking a fat fee for engineering the project. But all denied that they had got up to any such dodges themselves.

They also denied that their own consultancies were likely to be seriously shaken by any probable reverses in the City's recruitment activity, even though the dying of the pre-Bang demand would almost certainly make business harder to get. Confidence about profitable survival was expressed not only by generalist consultants who hunt heads for all kinds of industrial, commercial and public-service employers, but by those specialising largely if not entirely in finance-sector staff.

"I'd say there'll always be business for us anywhere that demand for certain kinds of people outstrips the supply. And it looks as though imbalances of that sort are continuously arising somewhere in the City," one consultant explained.

"One reason may be that few organisations in the area have been forward-looking in training people themselves, and maybe, even if they tried to be, they'd still be hit by crisis scarcities. Specialisms in this sector tend to be narrow, and changes in those which are leading the field are apt to be sudden and hard to spot far in advance.

> **". . . Provided a headhunting firm keeps its eyes and ears open and is fast on its feet, there should always be somewhere it can earn a living — it's a matter of being in the right mix at the right time . . ."**

"But, provided a headhunting firm keeps its eyes and ears open and is fast on its feet, there should always be somewhere it can earn a living. It's a matter of being in the right mix of specialisms at the appropriate time.

"As things stand now, for example, the signs from all over the world is that capital-market and securities activities are about to lose the lead. In that case, I'd bank on foreign-exchange and deposits people coming more into shortage pretty soon, with specialists in off-balance-sheet things such as swaps rising up the league not long later."

Another consultant concentrating on the Square Mile struck a still stronger note of confidence. "I agree there'll be some change from the recent trends," he said, "but I doubt that many banking people are going to be in the dole queue, even though some will probably have to take cuts in earnings.

"The key point is that the City seems set to continue to grow as an international banking centre for some years to come. And I cannot see how that growth can fail to absorb most of the skilled people available."

Michael Dixon

Very large amounts of the latest hardware and software have been installed by securities firms over the past year or two. Big Bang will not mark an end to the process, with auto-execution and paperless settlement promised over the next few years.

Electronic systems

Mishaps in the race against obsolescence

THE STOCK EXCHANGE, with its substantial information and settlement systems departments, is used to technological change. Its members, for the most part, are not. It was clear from the moment the timetable for Big Bang was set in motion that there would be an unholy scramble to be ready on time.

For almost every company, therefore, it was a tense and anxious period while systems which would normally take three or four years for designs and implementation were cobbled together in two year- or less.

Firms with comparatively modest technological ambitions may have had to worry only about the provision of sufficient telephone lines for their SEAQ (Stock Exchange Automated Quotation system) screens; but for the major market-making companies, preparations for Big Bang have been an enormous headache.

The sheer scale of some of the new dealing rooms is dramatic. Kleinwort Grieveson's new City dealing room at 20 Fenchurch Street, for example, will house when fully occupied 262 traders and institutional salesmen dealing in British and overseas equities, gilts, US Treasuries and Eurobonds.

Inevitably there have been mishaps and last minute changes of mind. One major market maker abandoned its newly built dealing room before a single share had been bought or sold, because it believed it was uncompetitive.

With only a few weeks to go, another City firm reduced Mr Nigel Bannister, chairman of NMW, a computer bureau specialising in stock processing, to incredulity by asking if it could change its computer hardware.

And, as the deadline crept closer, it became apparent that virtually every firm was experiencing delays on one or more of its systems.

That was no wonder, given the scale of the task. The modern dealer can have at his or her disposal a great many technology-based trading aids. The list of services conventionally piped to the dealing desk includes systems for:

- Information delivery;
- Trading; and
- Risk management.

Added to this list, there have to be "back office" systems for accounting and settlement.

While, ideally, all of these separate services would be integrated together, in practice each service has to be installed separately, usually by a separate contractor — possibly the in-house development team and involving separate hardware and telecommunications links.

Within each firm, therefore, there has been a multiplicity of projects, each with its own project management teams and moving at different speeds.

Inevitably, there were strains. In one of the best documented examples, Quilter Goodison decided, only four months before Big Bang, that to build both its "front office" and "back office" systems in time was asking too much of its contractor, Insight Data Systems, a specialised software house.

Leaving Insight to complete the front office "Smart" system, it turned to a computer package called FISCAL, written by Consultants (Computer & Financial) (CCF) to handle the back office.

The work was completed in three months with six weeks to spare before Big Bang, bringing to 10 the number of FISCAL systems completed by CCF this year, much to the satisfaction of CCF managing director Mr Tim Simon who had discounted arguments that his firm was overstretched. But it was no picnic. Mr Martin Collinson, of CCF, says: "Installing the package is easy. What is hard is transferring data from the old system to FISCAL, and training the customer's settlement staff in its use."

Inevitably, therefore, many firms have applied Occam's Razor and built the simplest possible information and trading systems, with an eye to revamping their dealing rooms after Big Bang when they will have a better idea of the size of the market and the likely volume of business. In any case, the average life of a modern dealing room is only four years or so, such is the pace of technological change.

As one stockbroker put it: "The useful life of our new room is five years, but it will be technologically obsolete as soon as our competitors down the road complete theirs!"

What all the major players have been doing over the past few months, most in great secrecy, is to find ways of using the technology to give them a powerful commercial advantage.

Mr A. R. Brown, director of marketing for the finance industries for Software Sciences, a software house which is part of the Thorn EMI group, and which has installed the "Colt" trading package at a number of London stockbroking houses, argues that firms with systems which enable them to trade safely right up to their capital limits will be the ones most likely to succeed.

Several firms have installed sophisticated information-handling systems to capture the data they need from the 200 or so information services now on offer in London.

Scrimgeour Vickers, part of Citicorp, for example, developed an information system called Dogfox, which it also provides to chosen clients. Its facilities include real-time data feeds from every European exchange, its own extensive financial and economic databases, analytical and modelling tools, and dealing facilities. Dogfox, it is claimed, can select the cheapest market, carry out a required deal and produce a docket.

Philips and Drew, now owned by the Union Bank of Switzerland, has somewhat similar service called Gemini, developed originally to provide current stock market information to its own gilt-edged department.

The key to future developments in information systems is the "digital feed"—the provision of market data, in computer language.

In the earliest days of electronic dealing room systems, each service was delivered separately to the dealer's desk and required its own screen and keyboard. The resulting clutter on the desk became impossible to manage, and was superseded by "video switching" which allowed these services to be delivered centrally and then distributed to screens on the desks. This kind of technology has proved to be reliable and stable, but limited in the advantage it can offer the broker.

Digital switching, where computer talks directly to computer, offers greater flexibility, the opportunity to organise and manipulate data in ways custom-suited to the individual dealer.

Among the leaders in this kind of advanced information handling is the UK firm Bishopsgate Terminals, part of the Alphameric group. It predicts: "Taking the City alone, we estimate that in the future not less than £70m annually will be invested in dealer information systems."

Trading systems like Colt—a US package modified to suit the City—have an emphasis on management control, although that control is exerted through screen messages rather than refusing permission to trade: "You cannot stop a dealer in mid-flight," Mr Brown points out. "It tends to damage his credibility in the market."

What everybody is waiting for, however, is to judge the performance of the bespoke risk management systems which several brokers—Kleinwort Grieveson, for example—have been developing as adjuncts to their trading systems.

These are not mere bells and whistles. They are substantial pieces of software which provide, for example, hedging models, facilities for identifying swaps and which can balance the cost of hedging against the risks involved in a particular deal.

If technology is the key to the new markets, it is this kind of technology which should unlock the greatest trading benefits.

Alan Cane

What comes next

Watch Taurus toss out paper

AFTER TALISMAN, Big Bang and SEAQ will come Taurus—the next big technological venture planned by the Stock Exchange.

The name may suggest that the exchange is pre-occupied with planning for future bull markets. But the reality is that Taurus will aim to revolutionise the processing of securities.

Share certificates, in fact, will disappear—cutting out paperwork and streamlining the administration and settlement of transactions. In the language of the Stock Exchange's settlement services division, that will mean the "dematerialisation" of UK and Irish registered securities. Settlement, in fact, will occur by computerised book entry, rather than by physical delivery of stock.

Due to be implemented in 1989, Taurus is intended to yield large cost-savings to big investors like banks, insurance companies and pension funds. A measure of the cost savings possible can be taken from the sheer scale at present of stock transfers. Talisman at present settles each day 20-25,000 bargains, and during each of the Exchange's two week accounting periods, more than 3bn shares are transferred from sellers to buyers.

Mr Michael Baker, head of the exchange's settlement service division, got the green light for the Taurus project in May this year. The name stands for Transfer and Automated Registration of Uncertified Stocks. One of Mr Baker's big objectives will be to make Taurus a flexible system, that can meet the varying needs of brokers and their clients, and adjust swiftly to adapt to changes in the market.

Put simply, investors—whether big or small—will hold their shares in uncertificated form in securities accounts operated by the Exchange. In practice, smaller investors will usually be "sub-account" holders: that is, they will hold their account through a stockbrokers or other intermediary.

But at any time, the investor or his or her intermediary, will be able to examine the account via an on-line computer terminal link. Through that link, investors will be directly involved in the settlement process. They will be informed of all bargains reported on their account, and no stock will be moved in or out to settle transactions without their prior agreement.

Legally, this is possible because in Britain a share certificate is not compulsory evidence of ownership of equities. That rests with the company's share register—which will still exist even after Taurus. That means that there will be no break in the relationship which currently exists between companies and their shareholders. Direct contact will be preserved, for purposes such as sending out annual reports, announcements, and making dividend payments.

The big change, in fact, will occur in the way instructions are made to amend the company register, and to make new entries. In essence, the Taurus system will mean adding automatic extra stages to the existing Talisman process for managing the efficient transfer of ownership from seller to buyer.

At present, at the end of the Talisman chain stock delivery transactions are generated between brokers. What Taurus will do will be to generate registration instructions directly at this point, passing them to the company concerned, and also notifying the two parties to the transaction, via a so-called "note of title".

And, most often, all the information involved should be capable of being shifted directly from the Taurus computer to the registrars or the custodians. That will not be as hard to achieve as an outsider might think, because in the UK most companies' share registers are administered on their behalf by one of a relatively small number of institutions—notably the clearing banks. The top 10 registrars, of which Lloyds Bank and National Westminster are by far the biggest, account for about 75 to 80 per cent of all share registration.

There are, of course, issues outstanding about Taurus which the exchange will have to address. First, there are many transfers in ownership of stock which arise from non-market transactions—such as legacies, gifts, or even changes of address or name. At the time Talisman was introduced, it was estimated that these account for about 25 to 30 per cent of all register alterations, and so some system will have to stay in being to cope with these.

Second, the Taurus project will evidently have to incorporate substantial security techniques. Instructions delivered by computer will have to be given some kind of authentication to prevent fraud (or simple errors).

And, ultimately, there will be further, speculative questions raised by the project. Take Taurus to its logical conclusion and the system would itself hold the share register for every Stock Exchange-listed company—cutting out the registrars altogether.

What's more, Taurus would leave the Stock Exchange in the situation of obtaining and then passing on the identity of every broker's customer for every deal—giving the exchange the capability to exercise much closer surveillance than presently possible of all market dealings.

Nick Bunker

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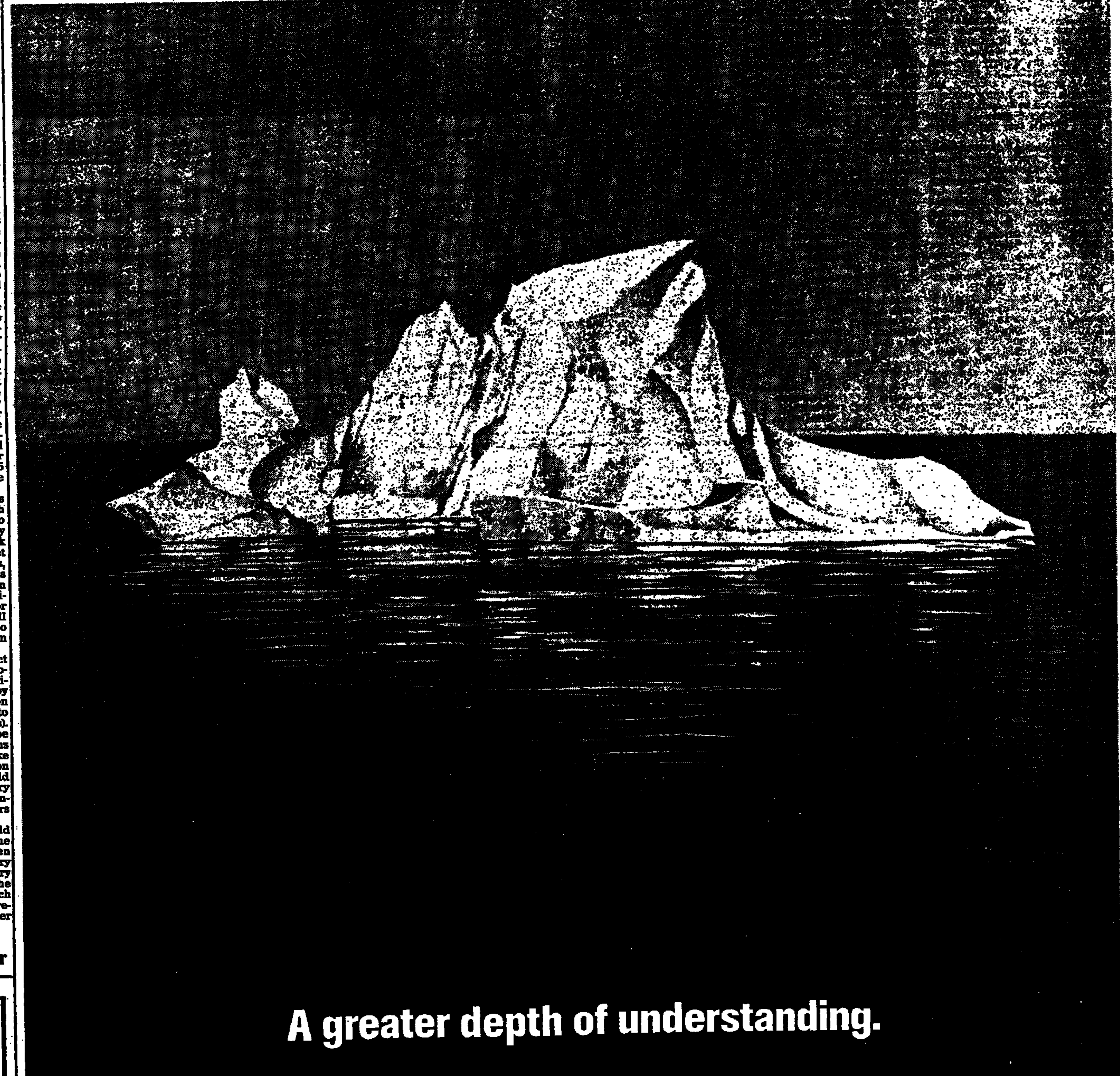

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Price Waterhouse

Workstations

Trail-blazers won't oust the phone yet

GIVEN THE press coverage that dealing rooms have received in recent months, one could be left with the impression that there is not a workstation in the City that is not brimming with the latest in technology.

While many firms are highly technology-driven, there remain a significant number that continue to operate in comparatively low-tech environments. Before some of the underlying issues of these different approaches are considered, a few brief illustrations are given of how technology is being adopted.

To the dealer, information represents opportunity. Consequently, a variety of database and networking techniques are being adopted to improve the accessibility and dissemination of market prices and other information. Furthermore, the integration and enhancement of previously discrete databases, and the generation of new ones, is enabling firms to accumulate more knowledge of their financial and risk positions.

Interestingly, despite the fact that totally screen-based trading is gaining ground, the telephone is expected to remain the primary business medium for some time. The opening up of the supply market for dealer boards—as the telephone facilities are called—over the last few years has stimulated the demand for new systems.

Finally, the Qwerty keyboard has been joined by a variety of other products, including the touch-tablet and the "mouse," all intended to help the dealer rapidly access data or enter trade details into the in-house computer.

It is probably fair to say that few of the workstations installed in the last year or so are still trail blazers for new technology. Rather, the motivation for installing new systems has come from organisational and market re-structuring. Belief in the strength of technology may be founded on a variety of factors, although some of them—the American experience and the "me too" syndrome, for example—are open to debate.

The desire of technology-driven firms to make full use of advanced facilities poses several problems for them. One of the most common is the fear of becoming committed to today's technology and losing out on tomorrow's. Indeed, technology itself and the facilities it can provide introduces new opportunities for one-upmanship. Unfortunately, upgrading is not always as easy as one would like and, while modularity features prominently in most design criteria, future flexibility can be lost.

The antithesis to the high-tech users are those firms whose dealers consider anything more than a telephone and a copy of the FT to be excessive. Admittedly, this rather simplistic view fails to reflect differing businesses and differing business strategies. However, it does exemplify a second view which says that the return on new technology is not always demonstrably comparable with the risks involved, and that competitive advantage can be gained through other means.

Such firms face their own set of problems. First, there is the danger that they will suffer by not having comparable access to the latest market information. They can also find themselves subjected to particular market pressures. For instance, subscription to some of the industry-wide network services, such as SEAQ and Reuters, is essential for doing certain business. This implies having the necessary systems. In the recently volatile job market, even dealers have shown themselves ready to move on if the available workstation facilities fall below their expectations.

The question of workstation design is, understandably, a complex one. But, whatever a firm's attitude towards technology, two issues remain paramount. The first surrounds the dilemma of optimising the effectiveness of the dealer and his or her workstation as an integral unit.

The choice of system components, which make up a workstation, is almost as varied as the dealers who are likely to sit behind them. Couple this with the fact that each group of financial instruments has its own characteristic requirements, and one is left with a three-dimensional problem. There are good commercial and technical reasons why some degree of standardisation should be achieved.

As a consequence, the workstation design for a dealing room of, say, 100 or more dealers can only be a compromise solution. Secondly, there is the very practical issue of achieving a design which is technically adequate for its desired purpose. This extends beyond the need to meet immediate functional requirements to address such issues as reliability, quality of installation and expansion capacity. Technical support groups have been under particular pressure in this area as a result of tight timescales and a shortage in skilled personnel.

Given the uncertainty of future market conditions and the pace of technological change, it is not surprising that workstations have been, and continue to be, addressed with relatively short-time horizons in mind. This is not the place to consider possible outcomes in the financial markets but certainly, so far as technology is concerned, a number of significant advances may be anticipated. Mention is made of just three developments which, incidentally, reflect some of the key research areas within the UK's Alvey programme:

1 The flat panel display, when capable of multiple colours, will help considerably in conveying maximum information while overcoming the space constraints of a typical workstation.

2 The development of a voice-recognition system that works reliably amid the clamour of the dealing room could help considerably in reducing data entry errors.

3 Artificial intelligence has already appeared in the dealing room for the filtering and analysis of market information, but there is still a long way to go before its full potential is realised.

Firms contemplating the future of their workstations will be distracted by no end of announcements, either about new technologies, new competitor facilities, or perhaps even the occasional system failure. It will not make their decisions any easier. In fact, one wonders how close we are to effectiveness actually falling with increased technical sophistication.

British Telecom, for example, have in a way already encountered this phenomenon with their City Business System (CBS) dealer board product. Although this leads the market in its use of the touch-screen, they recently launched an alternative, the Key Business System (KBS), which forgoes some sophistication for additional robustness. There are even cases of new systems standing idle as dealers continue to use their low-tech methods, although there are sometimes very good reasons why dealers should remain in touch with the figures.

In this air of confusion it is essential that firms remain focused on their overriding business objectives during any conceptual design or redesign, and adopt a thoroughly rigorous approach to the subsequent detailed design and implementation work.

David White
Spicer and Pegler

Digital switching offers great flexibility, the opportunity to organise and manipulate data in ways suited to the individual dealer. Among the leaders in this kind of information technology is the UK firm Bishopsgate Terminals.

Financial information systems

Smaller players carve out niches

THE RAPID growth of the financial markets and the growing sophistication of software systems has continued to produce a flood of new entrants to the increasingly crowded arena of information networks.

There has been little change in recent years in the dominating positions occupied by the big players such as Reuters, Telerate, Topic and Datastream, but some of the smaller companies are carving out useful niches.

The US information suppliers have long held significant shares of the UK market, on the strength of the US data they can provide, but other foreign companies are now taking a closer interest in London.

With the professional dealer or fund manager already well-served with a variety of competing services, some of the new arrivals are pitching for the smaller financial adviser who cannot afford or who does not require, large systems. Others are producing more basic systems still for the small investor.

The emphasis is increasingly on "adding value" to the basic information, and giving the customer freedom to manipulate the data in the way most suited to his needs. The aim, partly, is to reduce the number of screens required by busy dealers to do their job.

Half of all dealers have two screens on their desks, but 4 per cent had no fewer than four screens which required their attention, according to a recent survey by First Market Intelligence, a market research company specialising in the on-line information business.

The line between information and dealing systems is blurring following the introduction by Reuters of a dealing facility on its Monitor network. Reuters' plans to introduce Instinet, an automatic equity dealing system already operating in the US, into London prompted a long-running disagreement with the Stock Exchange though this was resolved last month. The exchange is keen to channel dealings through its own SEAQ systems, which is currently under development.

So complex has the world of information technology become that big information users may feel the need for in-house specialists to advise on the best data and the best systems, according to Paull Robathan in a recent book.*

The specialist would be called upon to advise on the best source of information to meet the company's needs, weighing cost against the quality of the information and the speed of delivery. He would also devise delivery systems to get the best use and most flexibility from incoming information. In addition, he would advise staff on how to interrogate data bases correctly so that the wrong questions do not provide misleading answers.

"An information specialist must be numerate and business-oriented, and have a capacity to translate general business requirements into hard technical specifications, according to Mr Robathan.

Reuters has been accused in the past of resting on its laurels after its successes in the 1970s, but it is making great efforts to catch up. It recently launched the Advanced Reuter Terminal (ART), a powerful new colour video terminal which can simultaneously display prices, graphs and news on a single screen.

Top ten information providers

Ranking	Company
1	Reuters
2	Telerate
3	Topic
4	Datastream
5	Finsbury Data Services
6	ADP Comtrend
6	Dialog
6	Pergamon Info-Line
9	Quotron
10	Dun & Bradstreet

according to penetration of City organisations

Source: First Market Intelligence

ART allows dealers to put together their own personal pages of real-time information drawn from different pages of, the Reuter Monitor system. The screen can be divided into windows of varying sizes.

Price information can be converted into graphs while a limit-minding facility alerts dealers when a predetermined price level has been reached. Control of the sytem is through either a keyboard or a "mouse" or pointer.

Smaller, newer arrivals on the information scene are also pressing hard. ADP Financial, a joint venture backed by ADP, the US infomation group, and Mercantile House, the UK money broking group, launched its Marketpulse financial infomation service in June.

ADP Financial plans to invest considerable resources in developing its international equity, gilt and option services in Britain in what appears to be an attempt to challenge the majors at their own game.

Another successful company has been Global Analysis Systems (GAS) which claims to provide a three-tier service consisting of a daily monitor, giving assessment of the day's events; a country risk monitor, providing update profiles of 100 countries; and a business risk monitor, allowing subscribers to ask specific questions.

GAS also conducts a daily poll of 25 foreign exchange dealers around the world to get their views on expected currency movements. This service is available via Reuters.

New software systems continue to be added to those already available. Zacks Investment Research of Chicago has developed an Equity Analysis System, or EASY, to provide UK investment managers with data on US stocks. Information on UK equities is to be added to the system later this year.

The internationalisation of securities trading has encouraged additional foreign suppliers of information to set up in the UK. Quick, the Japanese company, is now offering an English version of its Japanese equities service in the UK, starting from the base provided by Japanese banks and securities houses based in London. Similarly, Telekurs, the Swiss supplier of equity information, has followed the Swiss banks into London and recently opened a marketing office in the City.

The failure of some of the earlier attempts by British stockbrokers to launch information systems, such as the ill-fated DORIS, has prompted some of the brokers to go it alone.

Earlier this year, Quilter Goodision unveiled SMART, or Securities Management Accounting Reporting and Trading system, which is claimed to be the first on-line system designed to allow brokers to retrieve information, deal, settle and manage portfolios.

British Telecom has also been attempting to broaden the range of services it provides. Last month it added Hotline, which claims to supply a business news and maket informaton service to its subscriber's microcomputers.

Hotline is intended to provide more UK and European business information to counter the bias to US data, which BT perceives in many competing services. It will act as host to a variety of data bases including the Wall Street Journal, The Daily Telegraph and the China Express.

Most of the infomation suppliers assume that their clients will be working from their office, or at least a fixed location. There is, however, a growing market for portable information.

Dismissed by some as "Yuppie" toys designed to impress friends, hand-held display units are growing in popularity. Reuters led the field in the UK with Pocketwatch, a pocket-sized screen displaying six leading currency and interest rates.

Now the broadcasting of business information on the airwaves is about to go a step further. The Independent Broadcasting Authority is prepared to allow two franchises for what are called radiotext services, to be broadcast in the Greater London area.

Subscribers would call up data on their portable receiver or home personal computer equipped with a wireless receiver, without being tied to a line-based service. This would allow dealers and fund managers to follow market developements at home or outside office hours.

**Dealing Room Design, (Oyez International Business Communications).*

Charles Batchelor

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Merchant banking, worldwide.

As the Union Bank of Switzerland expands worldwide, its London presence has increased dramatically. In the wake of its biggest single purchase, the head of securities trading reaffirms his confidence in UBS's existing management policies.

Light steps across the culture gap

"WE WANT to concentrate our operations in the major financial centres, which are London, New York and Tokyo, outside Switzerland. We want a capability of executing orders throughout the world."

Rudolf Müller is the head of securities trading worldwide for Union Bank of Switzerland, the biggest Swiss bank, which in the past three or four years has emerged from its Zurich stronghold and has systematically set out to build a global investment banking business.

It has long been a powerful force in the securities markets within Switzerland. In the tradition of the continental "universal banks," UBS has built up major strengths in securities market making, distribution and portfolio management.

But as late as 1982 UBS (Securities) had only 15 people in London and eight in New York. Now it has 170 in each location, and is hoping to be granted a securities licence in Japan within the next few months, in which case it can implement plans for a 100-strong branch in Tokyo by the end of next year.

UBS's single biggest step, however, was its agreement two years ago to purchase Phillips & Drew, probably one of London's top five stockbroking firms, with particular strength in gilt-edged dealing and in portfolio management for pension funds.

The deal was completed earlier this year, and although the price has never been disclosed, outsiders reckon that P & D cost something like £80m, to which can be added at least £25m needed to capitalise its new gilt-edged market-making business, and further significant sums for equity market making and other activities.

The purchase of P & D allowed UBS to jump to a leading position in London's domestic and international securities markets, and P & D's lack of Eurobond coverage has been neatly balanced by the experience in that area of the London branch of UBS (Securities).

Yet P & D's very size and reputation makes it difficult for UBS to integrate its business. Mr Müller acknowledges the differences in culture, with P & D used to a very flat and democratic type of partnership structure, while UBS has a very clear, structured Christmas-tree

"We don't believe in up-front payments, or long-term payments with guaranteed bonuses, because in my view that will eventually have a killing effect on the securities industry."

type of organisation, with authority spreading down from the top. In addition, the gap between Swiss and British styles has to be bridged.

"We are meeting regularly, we are getting to know each other. But we are in no hurry," says Mr Müller. "The company operates successfully, has a good management, a good research side, and a good sales and trading organisation. There is no need for us to go in with a big gun."

He recognises that the takeover has removed a very important incentive for people at P & D, namely the possibility of becoming a partner "but everybody has lost that in the UK." The remuneration structure will have to be changed, but he insists on performance orientation.

"We don't believe in up-front payments, or long-term payments with guaranteed bonuses, because in my view that will eventually have a killing effect on the securities industry.

"I don't know of anybody in our bank, or in Phillips & Drew, who has more than a one-year contract. We'd like to keep the fixed costs low, and I would prefer to work on high gearing with profit participation than with a fixed bonus."

Mr Müller is guarded about the extent to which Phillips & Drew will be integrated into the UBS structure. In the future there is likely to be more emphasis on P & D's membership of the UBS group "which is in my view to their advantage, just as it is to that of the whole group." In any case, UBS's normal management style is to delegate responsibilities extensively to operating units, and he sees no reason to change the existing organisation of P & D, although naturally the setting of goals is agreed, and he recives a report on the firm's market-making activities on his desk in Zurich every day.

Phillips & Drew will be in the front line of the forthcoming competitive battle by 27 authorised market-makers to win a profitable share of the new-style gilt-edged market after Big Bang.

"I'm very, very relaxed about that," says Mr Müller. "We have a very wide client base in the UK. We are well-equipped to stand even a tough beginning, where the margins are

"If we find a way of developing the gilt market in other currencies by hedging it, an entirely new market could be opened up which doesn't exist today."

obviously going to be cut down. We believe we can make money right from the start." UBS is prepared to commit a "very large" capital.

He admits that, because of their distrust of sterling, the Swiss have never been big players in the gilt-edged market, even though it is among the three biggest fixed interest markets in the word. But he suggests that, with greater use of currency swaps, this could change. "If we find a way of developing the gilt market in other currencies by hedging it, an entirely new market could be opened up which doesn't exist today."

Equity market making is also a new area for P & D, which in the past has only been able, under Stock Exchange rules, to act as a broker. But UBS has long experience of combining market-making with distribution.

Rudolf Müller accepts that it will take some time for all the new equity market makers in London to sort themselves out. But he adds: "If you have the right research product and contribute the right liquidity to the market, that is more important than to have an extremely low commission rate, or a tight price."

One tricky area is the relationship between P & D's pension fund management business and the firm's broking and market making arms. Recently the portfolio management side, with well over £5bn under its control, has been separated into a new company which no longer intends to pass all its transactions through P & D.

But in the Swiss tradition, Mr Müller is keen to retain much of this business. "You can benefit by having a successful combination of market making and commission business for your customers. I don't see any reason why the Phillips & Drew fund managers should not deal with us."

He goes on: "We are doing that with UBS (Securities). My traders are dealing in Eurodollar bonds with Kidder Peabody, with Lehman, with anybody, but they generally trade with UBS if the price is equal or better."

In the longer run, the present physical separation of the different activities of P & D in London may have to be rethought. "Obviously I would like to have 5,000 square metres on one floor. In the different offices which we have today we don't maximise on the flow on information."

UBS is aiming, in due course, to put the units together physically, but this does not imply a full-scale integration of the various different activities, which, from the profit centre point of view, could remain distinct.

Meanwhile, Rudolf Müller sees the bank's broad client list—the basis of its ability to distribute securities effectively—as conferring a distinct advantage over some of the competition, notably the US firms in London.

"We are not only professional traders, we also have a capability of using our distribution to have a wider coverage in the market than purely on a counterparty basis. That makes us different as far as the Americans are concerned in the UK."

Barry Riley

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Equities

Global distribution should be good for share prices

Global trading is now the glamorous part of the securities business. Stock exchanges and regulators are hard-pressed to keep up with the development of cross-border investment and, increasingly, of 24-hour trading.

LAST MONTH, a $2bn share offering was arranged in London — almost exactly the same size as the Trustee Savings Bank's flotation in the same week.

The shares being placed represented a 10 per cent stake in the Italian car maker, Fiat. They were part of a 15 per cent holding being sold by Libya. The banks heading the deal were Deutsche Bank Capital Markets, London subsidiary of the West German bank, and Mediobanca, the Italian bank associated with the Agnelli group which controls Fiat.

Underlining the global nature of the placing, the 10 houses acting as co-lead managers have their head offices variously in Switzerland, West Germany, the US, the Middle East, Japan and France. Not a single one was British, though the UK was represented in the more junior co-management group.

Though Deutsche Bank ruffled some feathers in the market because of the somewhat *macho* manner in which it handled the placing, the deal was a landmark which highlighted the rapid development of a global market in the shares of the world's biggest companies.

Virtually every share offering of any size from any country — the TSB's being a singular exception — now includes an internationally sold portion. Even initial offerings by relatively small New York garment companies, for example, have included tranches of 20 per cent or so offered in Europe.

The trend has several forces driving it. Issuing companies have grown to like spreading the ownership of their shares as widely as possible. The rationale for this is that creating broader demand is good for the share price. Multinationals also argue that it makes sense for international share ownership to mirror the spread of their businesses.

Global distribution of shares has been made possible by technology enabling share prices and data about companies to be flashed around the world instantaneously. Communications have enabled the largest securities houses, mainly American, to trade shares around the clock, passing their books from New York to Tokyo to London and on back to New York each day. Though this is probably only done to a limited extent so far, there is no doubt that there is enormous trading of shares outside domestic markets.

New York trading in American Depositary Receipts representing UK company shares is very active. In London, some 550 foreign stocks — some, admittedly, not very active — are quoted on the Stock Exchange's Automated Quotation International service. In addition, there is quite active pre-opening business in New York stocks as well as well-established interest in many overseas stock markets. In Tokyo, there is a developing market in foreign shares, indicated by the growing number of foreign companies obtaining listings on the Tokyo Stock Exchange — though listings are nowadays not at all a reliable guide of what shares are being traded in any centre.

As well as turning their trading activities global, securities firms are doing the same thing with the other main planks of their business: research and new issues. New research teams are being built, for example, in London by US firms.

On the new issue front, firms in London which have been active as eurobond issuers for years have been turning to equities and developing the so-called euro-equity market, in which shares are distributed using the syndication techniques employed for bonds. The Fiat placing is the largest example so far of this. The issuing houses are attracted towards the market because, as with any new market, the fees are attractive by comparison with the Eurobond market where competition is intense and profits hard to earn.

There are, however, potential pitfalls in the international equity market.

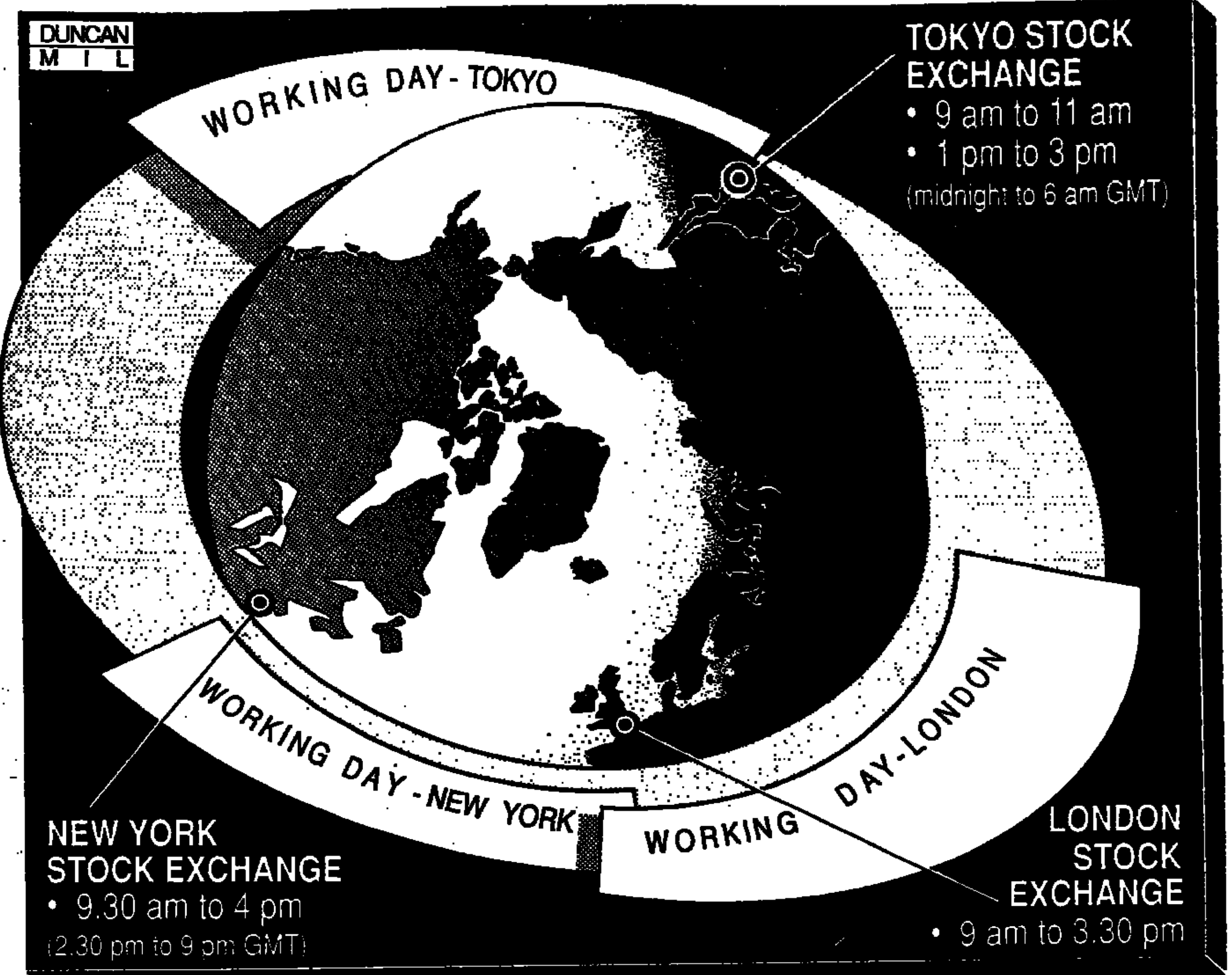
Issuers find that they must devote infinitely more time to keeping investors up to date on their companies' performance. A new industry has been spawned, called investor relations. Issuers may also find that, if there is adverse news, shares are sold heavily back into the domestic market, with a disproportionately damaging effect on the share price. Scandinavian companies, which have fairly illiquid home stock markets, have been particularly vulnerable to this.

When offerings are made, the biggest challenge facing the issuing houses is to find firm holders of shares. Whereas each bond issue is unique and a poor performance therefore has no overall effect on other bond issues by the same company, share issues are fungible with existing shares of a company and could thus hurt the share price. There have been one or two serious cases of "flowback", where the shares are sold quickly back into the home country for a fast profit, defeating the object of global distribution.

The international equity market is also highly vulnerable to unilateral regulatory moves, such as the British Government's decision earlier this year to impose a tax on the conversion of shares into American Depositary Receipts, on the logic that investors trading UK shares in this form in New York were escaping stamp duty. More broadly, standards of disclosure and accounting differ from country to county, and there is a danger that issuers and traders will gravitate towards the least well-regulated countries. Most recently, regulators have started to get worried about the risks that individual securities firms are taking on around the world, and the potential for a problem in one market to translate almost immediately into a worldwide crisis.

A further crucial test for the new market will occur when a downtrend occurs in world markets. Investors have tended to favour internationalisation because they are aware that foreign stock markets may be performing better than their own. Once they start to get burned, they may decide that they prefer to stay in home markets with which they are familiar.

Alexander Nicoll



Global activity is extending London's working day and offering the City exciting opportunities. Someone starting work early to catch the last Tokyo trading may later be taking orders from New York. BELOW: Robots at work in Fiat's Turin plant. When the Libyan stake in the Italian car giant was placed last month, finance houses in at least six countries were involved.

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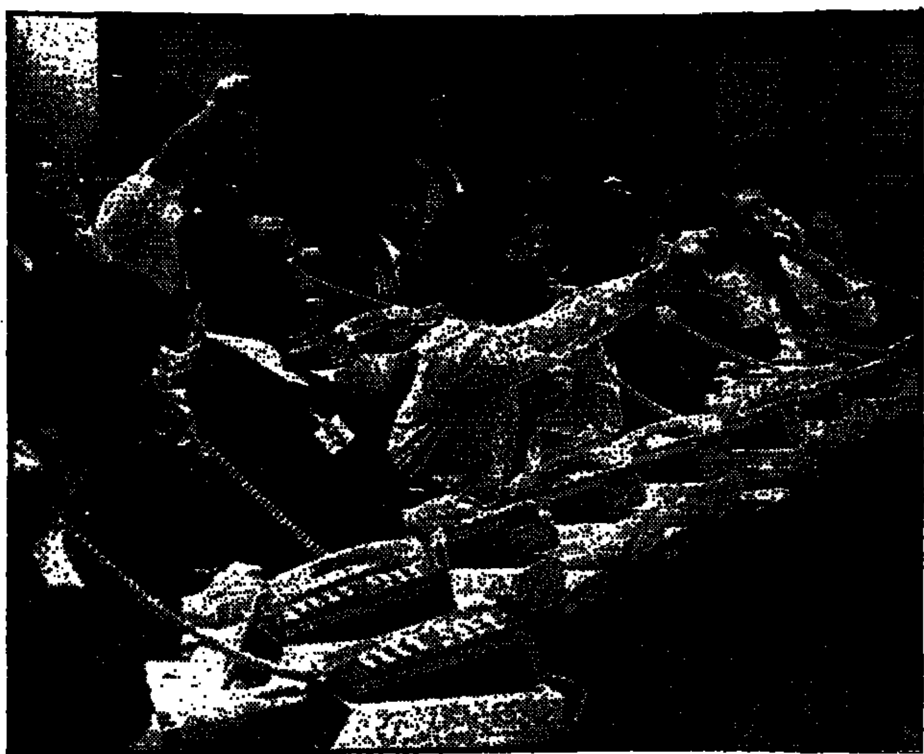

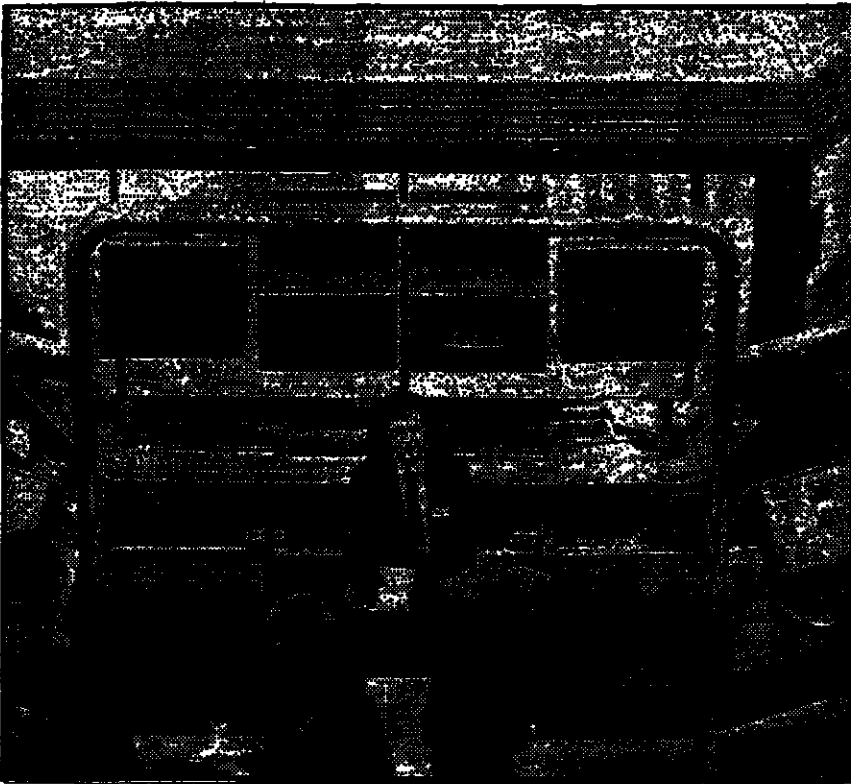

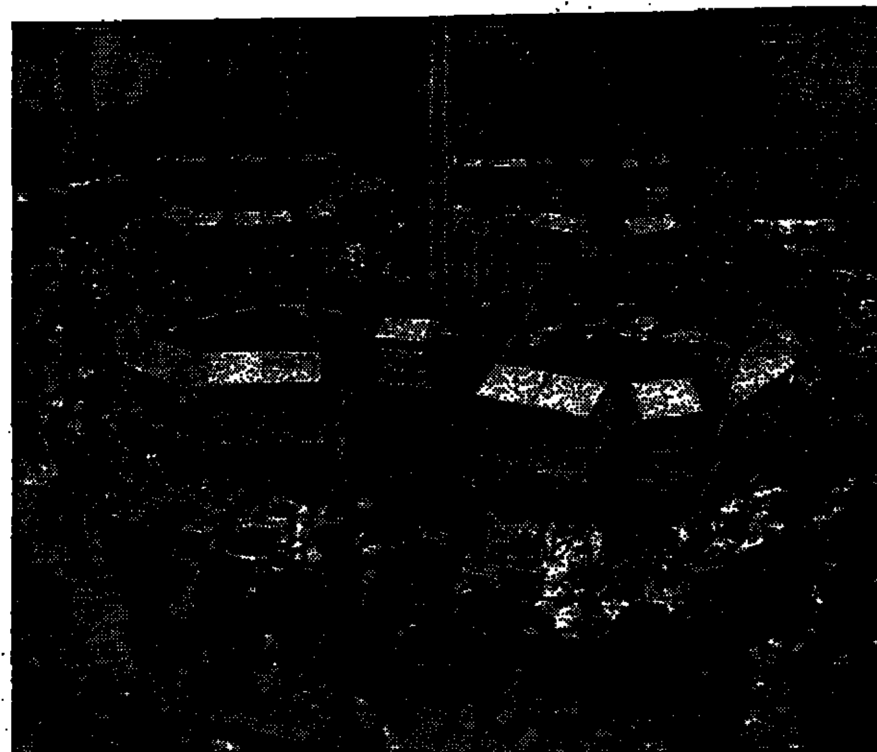

Tokyo, London and New York: the three stock exchanges link up to provide continuous multi-centre trading.

24-Hour Markets

More products now need round-the-clock trading

ASK A senior investment banker about the concept of 24-hour trading, and you are likely to get a reply straight out of the management consultant's handbook.

"Global strategy" will be mentioned, as will "securitisation" and most of the other current buzz words. You will be told how London fits neatly into the 24-hour time zone between Tokyo and New York, and how the investment bank in question is uniquely well positioned to capitalise on the trend.

But does it all add up to anything? What are the advantages of continuous multi-centre trading, and do customers actually need such a facility?

The answers depend on what is being traded. Dealing around the clock in foreign exchange or US treasury bills is one thing. Making a 24-hour market in ICI or Royal Dutch is another. The difference lies in the size, liquidity and characteristics of what is being traded.

A recent study by the Bank of England gave a clear picture of the size and international nature of London's foreign exchange markets. Average volumes came to $90bn a day, and sterling/US dollar transactions only accounted for 30 per cent of gross turnover. Substantial volumes of business took place between the US dollar and the DeutscheMark (28 per cent) and between the US dollar and the yen (14 per cent). Almost all the transactions involved the US dollar in one way or another.

A foreign exchange trader who was not able to pass the book on to New York and then to Tokyo would find it just about impossible to carry on in this game. Twenty-four-hour trading in the major currencies makes it possible to deal on finer terms and at lower risk than would be available to anyone who shut up shop at London's closing time.

The same applies to the markets in a number of highly liquid securities, the most obvious being US Treasuries, but also including Japanese governments and gilt edged stock. Average daily trading in US treasury securities has risen to roughly $100bn, with several billion dollars worth being traded daily in London and Tokyo.

The growth of this international trading has been spurred by [the remo]val of foreign exchange controls), and by Japan's trade surpluses, which have triggered a flow of Japanese capital into the international markets. At the same time, the US has changed its tax rules to remove bias against foreign investors.

As the US credit markets exert an increasing pull on interest rates around the world, there have been growing opportunities to hedge positions between securities issued by different governments. The volume of trading in Treasuries is great enough to support a full structure of inter-dealer brokers in London and—as in the foreign exchange markets—24-hour trading has become a requirement rather than an option.

The number of products which need to be traded in this way is increasing, thanks in good part to the growing securitisation of international lending. UK based banks' holdings of floating rate notes have more than trebled since the statistics were first collected at the end of 1983, and securitised lending accounted for one eighth of their cross-border lending other than to affiliates at the end of last year.

Other types of securitised paper, such as mortgage-backed bonds, are increasingly being traded around the clock, notably by the big US investment banks.

"Customers like to be able to deal in size during their working day," says Mr Charles McVeigh, a managing director of Salomon Brothers International. A liquid 24-hour market enables customers to complete transactions at the timing and price of their choice, without having to take overnight risks on currency or interest rate movements.

This kind of trading depends on very sophisticated communications systems. As London traders reach the end of their working day, they pass on to New York both verbally and by facsimile transmission full details of their position, the colour and tone of the day's trading, and views on likely reactions to expected news events.

Firms like Salomon and Goldman Sachs stress the importance of teamwork built on common disciplines and training.

"If possible, we would always send one of our own people to maintain the book, as this lends continuity to the desks trading in the three separate time zones," says Mr McVeigh.

When it comes to international equities, the opportunities and needs for 24-hour trading are much more restricted—at least for the time being. Although some firms are making big efforts to develop round-the-clock market making in equities, the scale seems limited. "At the moment, ambitions run way ahead of achievement," says Mr David Walton Masters, of County Securities.

Only a few hundred shares are of continuing interest to investors around the world, and equities are not interchangeable in the same way as government bonds. There would be no sense in trying to balance a position in General Electric with another in GEC.

However, some equities do lend themselves to multi-centre trading. Japanese stocks, for instance, are now heavily traded in London.

Robert Fleming makes a market in around a dozen front-line Japanese shares, and is prepared to trade by negotiation in a wide range of other Japanese equities on an over the counter basis. It passes the book on to its associates Eberstadt Fleming in New York, and Jardine Fleming in Tokyo.

"People have become fed up with poor execution over night by Japanese brokers," says Mr Peter Jamieson, a Fleming director. "It is very attractive to have the option to deal and cover the foreign exchange element immediately."

The big American firms are heavily involved in trading Japanese stocks, too, and their net goes wider. Goldman Sachs, for instance, trades around 30 UK shares and roughly 40 other Europeans.

Some of the largest British players are taking a more cautious line, partly because they have no other choice. County Securities—as part of National Westminster—would be barred by the Glass Steagall Act from making a market in equities on Wall Street. It also cites the difficulties of assembling traders with the necessary skills, and of building the required communications systems. "It will become desirable and necessary to have a 24-hour global trading capability in due course," says Mr Walton Masters. "But we will proceed with care."

The Stock Exchanges themselves are responding to the shift towards global markets. Mr John Phelan, chairman of the New York Stock Exchange, believes that international investment funds will flow in increasing volumes into the shares of a few hundred multinationals, and not just during the hours in which New York would like to work. "We don't want to give up all that business."

London and New York have both extended their trading day, and member firms have much extended their hours of business at both ends of the day.

One risk is that competition among exchanges to retain global business will lead to a lowering of regulatory standards. For instance, the attraction to a US investment bank of trading a stock like Ericsson in London rather than on the NASDAQ system in the US is that no disclosure has to be made about the transaction. "This lack of visibility gives us a little bit of an edge when we are working off a position," one banker admits.

There can also be problems in trading large volumes of stock which are not backed by a liquid domestic market. The underwriters of Libya's large placing of Fiat shares have learnt this to their cost.

The general assumption is that the most liquid market for any security will usually be in the country of its origination. This could limit London's role as a centre for global trading, since its domestic capital markets are modest compared with those of New York and Japan.

That apart, its advantages include language, geography, and a strong position in the international banking and investment management businesses. Add to that the balance-sheet strength of its newly recapitalised securities industry, and London should be well placed to develop as a centre for global market making.

Richard Lambert

FH

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BARCELONA STOCK EXCHANGE

GENERAL INDEX

BARCELONA STOCK EXCHANGE RATIOS

End of june 1986

SECTOR	AVERAGES Price/Cash-flow	Price/earnings	Dividends/price	Price/book value
Utilities	5.45	25.59	3.45	0.54
Commercial Banks	4,71	14,13	2,49	1,57
Industrial Banks	8.77	14.36	2.28	1.90
Chemical	6.17	17.45	2.03	0.85
Cement and Building	6.29	15.62	2.72	0.89
Real State	13.36	16.85	3.56	1.01
Metalworks and Automotive	6.05	13.40	1.99	0.83
Food, Agricult. and Forestry	7.91	27.22	1,90	0.95
Paper and Textiles	3.56	18.86	0.44	0.62
Monopolies	7 15	14,74	2 46	1.60
Trade and Finance	9.02	18.77	2.05	0.74
Insurance	22.87	29.54	1.58	2.48
Services and Sundry	4 15	15.49	3.32	0.64
Investment Companies	22 45	9.56	3 61	1.23
General	6 66	16.34	2.38	1.03

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Eurobonds

Pragmatic approach to City rules

LONDON'S ROLE as host to the international Eurobond market has provided a major boost to its role as a world financial centre over recent years. New issues of Eurobonds last year surged to an all-time record of $135bn, and it is estimated that some three-quarters of the annual $2,200bn secondary market turnover of Eurobonds passes through the City.

That makes the market one of considerable importance, and one whose location in London needs to be preserved if the Big Bang is not to have the perverse effect of diminishing the City's international reach.

Yet absorbing the habits and structures of the market into the new regulatory framework for the City has been no easy matter. By definition, the Eurobond market is an international one that has grown up outside the normal reach of national regulatory agencies.

The market's development in London largely by-passed the Stock Exchange. Although some Eurobond issues are listed there, more often than not the new issue managers travel to Luxembourg to seek a listing on the Grand Duchy's tiny stock exchange. Trading of Eurobonds takes place off the floor of the exchange and is mostly done by telephone. All told, it is an independent market with an independent spirit.

Indeed, the original attraction of London to this market was that it provided a centre with only very limited regulatory constraint. US companies can issue bonds in Europe without the rigorous Securities and Exchange Commission registration procedure. Limitations on the structure of issues are determined more by what investors will buy than by any official edict; and there are no official rating requirements, although the market does follow closely the credit ratings set by the two leading US agencies, Moody's and Standard and Poors.

Suddenly the Eurobond market has found some of its cherished freedoms under fire as the UK moves to establish a regulatory framework for its new-style City. Unsurprisingly, this has been controversial in the market itself, not least because operators feel that the style of the regulations is at cross purposes with the way the Eurobond market works.

The Eurobond market is largely a professional, wholesale one. Though it grew up out of retail demand in Europe for dollar-denominated paper—and still distributes bonds to retail clients of Swiss banks and to wealthy continental investors, who are crudely categorised as Belgian dentists—it is increasingly an institutional market—where the main players are big investors, well able to look after their own interests.

The bond dealing room at Yamaichi Securities, in London

Thus, market practitioners have found the regulatory approach of the UK, which is designed primarily to protect smaller investors, a cumbersome nuisance. Nonetheless, there has been no escaping the net, and this has brought the market's own trade organisation, the Association of International Bond Dealers, to the fore.

The AIBD expects to be recognised as an investment exchange under the new regulatory structure. It was a founder member of the International Self-Regulatory Organisation (ISRO), which will be responsible for regulating the bond market after Big Bang.

In the past two years, it has moved from being a largely social organisation, which organised an extravagant jamboree in the form of an annual meeting once a year, to a forceful player in the establishment of rules for the market. John Wolters, the patient, intelligent and thorough Dutch lawyer, who serves as its secretary general, has become an important player in helping shape new rules for the market.

This is no easy matter, for AIBD itself is not a specifically British organisation. Its headquarters are in Zurich; it serves an international marketplace; and some of its Continental members feel that it should not become too tied down by developments in any one particular centre.

The fact that it has decided to co-operate with the Big Bang changes—and that senior executives of leading investment banks have suddenly become willing to devote a large proportion of their time to its deliberations —is a positive signal for London. It suggests that, whatever happens after Big Bang, the general view is that the Eurobond market should work within the City framework rather than drift away elsewhere.

The general consensus has been to seek a pragmatic relationship with the UK authorities, designed to limit the constraints on the market to what is practical and feasible.

Thus, in negotiation with the authorities, a form of wording has been achieved that will allow lead managers of Eurobonds to continue to stabilise the price of new issues in the grey, or unofficial, secondary market that springs up immediately after launch.

This is a well established practice in the Eurobond market, and it is regarded by practitioners as a way of smoothing the placement of issues that would otherwise have a difficult run. On the other hand, it smacks of price manipulation, which is anathema to those seeking full investor-protection. Under the new arrangements, lead managers must simply issue a clear warning to the market that stabilisation might take place.

One of the biggest controversies that has hit the AIBD, however, has been in the development of a price-reporting system designed to increase the transparency of market dealing in keeping with the new regulatory requirements.

Earlier this summer the AIBD issued a series of draft rules, which will compel designated market-makers in Eurobonds to report the prices of their transactions each day. This will provide a record of market business, enabling the AIBD to establish an objective price-reporting system for the market.

But the rules met a storm of protest, not least because of the requirement for broking firms to declare to the AIBD the identity of the counterparty with whom they were dealing. This deprives them of their anonymity, and leading firms in the market were worried that it might lead to sensitive information, for example on their positions in any one particular issue, being known to competitors.

In the primary market this might be no bad thing. It is well known that co-managers who cannot place paper dump it with brokers, who then often pass it back to the original lead manager. The latter can thus find himself paying co-managers a fee for taking paper on their books which he himself eventually has to place. A reporting sysem which exposed the weaknesses of some co-managers might thus be welcomed, but in secondary market trading such a scheme presented severe problems.

Instead, it now seems likely that brokers will simply become subject to periodic independent audits, to ensure that they were doing business only between market-makers and not between end-customers.

That is an outcome which underlines the pragmatic approach being taken by the market to the new City regulatory structure, even if it does show that there are limits to the degree to which the market is prepared to open its books to public scrutiny.

Moreover, the new market-making rules will have the very positive effect of making the Eurobond market generally more transparent. Up till now it has been very hard to obtain reliable price information from the secondary market, because of the shadowy way in which it transacts a high volume of business. AIBD is studying the possibility of setting up an automated price-display and bond-trading system similar to that operated by the National Association of Securities Dealers in the US.

This type of development is well overdue in a market of the size to which the Eurobond market has now grown. Sooner or later it would probably have happened anyway, but there is little doubt that the Big Bang has hastened the development of a more open secondary market in Eurobond trading.

Peter Montagnon

A common approach to Big Bang. Why wasn't it ours?

The lead up to Big Bang has caused quite a stir in the City.

Into the melting pot jumped jobbers, brokers and banks as they sought to protect themselves against the threats of the new marketplace. As with most marriages of convenience, there were problems.

Just the physical task of merging all three proved a nightmare. But far more worrying was the problem of integrating long-established firms each with their own entrenched attitudes and ways of working.

Could the old systems be adapted to the needs of the new era? Would the highly-skilled people the new market demands end up stifled within some financial conglomerate?

Often key people didn't stay around to find out.

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Lloyds Merchant Bank

Consulting SEAQ in the offices of brokers Savory Milln

SEAQ

The new market has an electronic heart

AS A global stock market began to take shape, both the Stock Exchange in London and established exchanges in other centres faced the possibility that they would gradually lose the trading in shares of the world's largest companies.

The reason was that the largest securities houses, especially in the US, were developing a telephone round-the-clock market, in which they made prices inclusive of commissions and other charges. Trading between them was increasingly by-passing the stock exchanges.

This did not mean that a market was being created totally divorced from established exchanges. Obviously, the international houses would have to trade heavily on domestic exchanges in order to fill their own and their clients' needs.

But, in the longer term, there was potential for more co-ordinated trading and settlement systems to be set up, which could take away the liquidity in the very stocks that exchanges count upon—those of the largest companies where trading is most active.

The Stock Exchange's answer was SEAQ International. As well as representing the exchange's first tentative venture into the provision of an international marketplace, it has also served another important function: as a testing ground—not only for the exchange itself, but also for its members—for the full domestic SEAQ (Stock Exchange Automated Quotation) service which will be the heart of the market after Big Bang.

SEAQ International was made possible by the Stock Exchange's decision to abolish fixed commissions and single capacity for foreign shares last year, well ahead of the same Big Bang changes in the domestic market. Stockbrokers could therefore establish separate international dealerships to deal on these terms, principally in the shares of long-familiar sectors such as Australian and South African stocks.

When SEAQ International got under way, it was a fairly primitive screen quotation system. Most dealers phoned in prices to the exchange, which then displayed them on a page on the Topic system. Prices were not changed very often. Gradually, it has gathered steam to provide a credible marketplace.

Now, the service covers about 550 stocks, from the US, Australia, Canada, the Netherlands, France, West Germany, Hong Kong, Japan, South Africa and Scandinavia. Prices are made by 36 market-making firms, including some which are not members of the Stock Exchange—of the big four Japanese securities houses, for example, only Nomura is an exchange member, but the other three contribute to SEAQ International.

Stocks which have only one or two market makers are displayed on those firms' pages. But if there are three or more market makers, the competing quotes are shown on a multi-contributor page for the stock. About 200 stocks have such pages.

Of the 36 market makers, about 30 are now directly hooked up to the system, while the remainder still telephone in prices. There are also two small jobbing firms who now make prices as principals and will become market makers after Big Bang. Towards the end of September, another half-dozen firms were waiting to be hooked up to SEAQ International by British Telecom.

Use of the system was limited at first. But it has been considerably boosted by several key developments, and should be even further enhanced next year when the current system is replaced by a more advanced one.

SEAQ International was made possible by the Stock Exchange's decision to abolish fixed commissions and single capacity for foreign shares last year, well ahead of the same Big Bang changes in the domestic market.

The first major move is the gradual conversion of indicative prices to firm quotes. Market makers in five sectors are now committed to dealing at the prices they quote on the SEAQ International screen. South Africa was first, followed by Australia and Hong Kong. Dutch stocks were the first in Europe—and thus with an established market in the same time zone—to move to firm prices. Perhaps the most significant step, however, was the introduction at the beginning of this month of firm prices on Japanese stocks.

Fourteen market makers, including the big four Japanese houses, are committed to the prices they make on 16 Japanese stocks. There is keen interest in the system in Tokyo, since firm prices obviously give the market considerably greater credibility.

The second move to enhance SEAQ International's scope is the agreement of a series of data links with vendors of price data. The Stock Exchange now has such arrangements with Reuters (which must be viewed as a competitor in the race to establish an international equity marketplace), with Bridge Data, and with Telekurs of Switzerland.

Thirdly, SEAQ International prices are now visible on the NASDAQ screen quotation system operated by the US National Association of Securities Dealers. Under this experimental two-way link—which is still in stages too early to judge—selected NASDAQ quotes are also visible on Topic screens.

Though SEAQ International has been a pilot for the new domestic SEAQ system, it has been decided in the end to keep them as entirely distinct systems, because of the differing needs of the two markets. Still, it has helped to educate London traders about screen trading: whether dealers should personally input prices, for example (the answer seems to be yes); and how many stocks an individual dealer can handle at once.

Mr Philip Reichardt, who runs SEAQ International, says it needs to be different from domestic SEAQ, because it is a multi-currency system distributed through various data systems, whereas the domestic service is in sterling and shown mainly on Topic. In addition, there will probably be different trade reporting and publication requirements under Securities and Investments Board rules.

Many improvements still need to be made before the Stock Exchange will be able to say that it has a fully-fledged, proven marketplace for international stocks. Prices need to be updated more often, and there needs to be a better mix of prices, with news about the subject companies, such as that which appears on the Topic screen for domestic companies.

The commitment to developing SEAQ International and its successor system, however, may well increase now that the exchange is merging with the international securities firms which had threatened to set up a rival exchange. The Stock Exchange and the International Securities Regulatory Organisation (Isro) say they intend to develop an exchange as the world's leading market in international stocks. Though the eventual system will probably be massively more sophisticated than the current one, SEAQ International will be seen as an important forerunner.

Alexander Nicoll

International links

Time-span suits futures

THE VOGUE among stock and futures exchanges the world over is to explore the potential of trading links, providing members with a business day spanning the time zones.

This is in keeping with the trend towards globalisation of markets and the development of a round-the-clock market in equities. If exchanges want to hang on to the markets, they must provide services which enable their members to deal as competitively as possible.

Little, however, has actually been achieved so far. As well as the technical and regulatory difficulties which such links raise, there are often political problems within exchanges. Members of large markets may feel that some of their business will be drawn away to the smaller exchange with which they are linked, benefiting the latter but not the former.

The links in place so far are mainly in the futures and options markets, and most of the plans for new links are also to be found in them. Contracts traded on one exchange become fungible, or interchangeable, with those traded on another; so that a position opened on one exchange can be closed or altered later in the day on the other, with only one set of margin payments required to back the position.

The Chicago Mercantile Exchange, for example, has an arrangement with the Singapore International Monetary Exchange (Simex) under which the latter effectively becomes an overnight extension of the Chicago floor for the contracts which Singapore trades: selected currency and interest rate futures.

About one third of the business done in Simex originates through the trading link. Though the technology has worked well, the experiment could not, however, be deemed a success yet, because Singapore's volume is still quite low. The link is also likely to be unique, because Singapore essentially produced regulations and market procedures matching those of the US. Few other markets would be willing or able to follow that example.

Other links, in various stages of readiness, are between the London and Philadelphia stock exchanges, for currency options; the London International Financial Futures Exchange (Liffe) and Chicago Board of Trade, for yen bond futures; Liffe and the Sydney Futures Exchange, for US interest rate futures; and the Sydney Futures Exchange and the New York Comex, for gold futures.

The futures industry, then, is apparently showing great enthusiasm for links. Futures exchanges such as Liffe hope that links will, eventually, produce a greater global market than the individual markets would have developed separately. But there remains considerable doubt as to what extent they will be used. And they are extraordinarily tricky to set up—the London-Philadelphia arrangement has already taken more than a year to negotiate.

Members of large markets may feel that some of their business will be drawn away to the smaller exchange with which they are linked, benefiting the latter but not the former.

Stock markets are less far advanced. US and Canadian stock exchanges have trading links for selected equities, and these seem to be performing satisfactorily.

In the UK, the London Stock Exchange has been exploring a number of potential arrangements, and has begun a pilot link with the National Association of Securities Dealers, which operates the huge NASDAQ automated quotation market for so-called over-the-counter stocks.

Subscribers to the Stock Exchange's 4,000 Topic screens can see real-time quotations made by NASDAQ competing market makers on the system's 200 largest US stocks, and on about 70 non-US and non-UK stocks quoted on NASDAQ in the form of American Depositary Receipts.

On 2,600 NASDAQ terminals, subscribers can see mid-prices for the 100 UK shares which make up the Financial Times-Stock Exchange 100 Index, and bid and asked prices on several hundred non-UK stocks quoted by market-makers on the Stock Exchange Automated Quotation (SEAQ) International service. The form of the London input will change somewhat after Big Bang.

Though the link is still very much at the experimental stage—and is probably not yet very extensively used in the marketplace—it has helped both markets to come to grips with the technological problems involved. It is also laying the groundwork for closer co-operation in the future.

The London exchange also has plans for a similar arrangement on a small sample of stocks with the New York Stock Exchange, but a link with NASDAQ was much easier to set up because London's new trading methods are essentially modelled on those of NASDAQ.

In the longer run, links between clearing systems are probably as important as those between trading systems. The Stock Exchange's settlement services division has been actively developing a large number of electronic bridges of which the first—also still at an experimental stage—is with the clearing organisation of the Midwest Stock Exchange in Chicago.

This will considerably reduce the transaction costs and increase the efficiency of cross-border trading. The Stock Exchange also expects to conclude a similar deal linking its Talisman settlement system with the largest US clearing organisation, National Securities Clearing Corporation in New York.

Clearing links enable investors to achieve their desired end—cross-border investment—through direct access to the most liquid market in any given stock, without the complexities and political difficulties of a trading link. They may prove a more lasting phenomenon.

Alexander Nicoll

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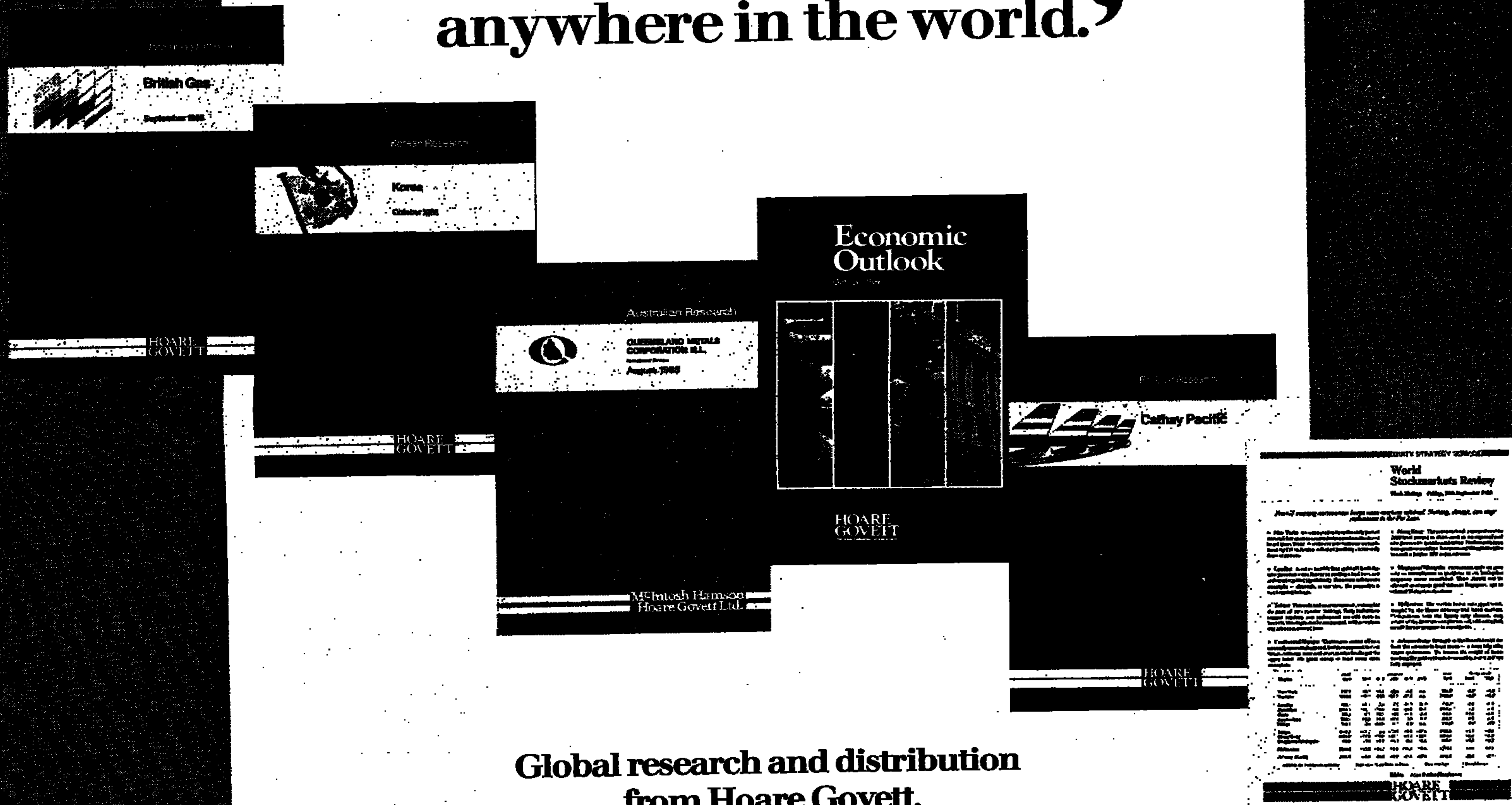

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OPINION POLL: MIL Research for the FT

INSTITUTIONAL fund managers are the most influential users of the London securities markets, and they will play a key role in determining the course of events after Big Bang.

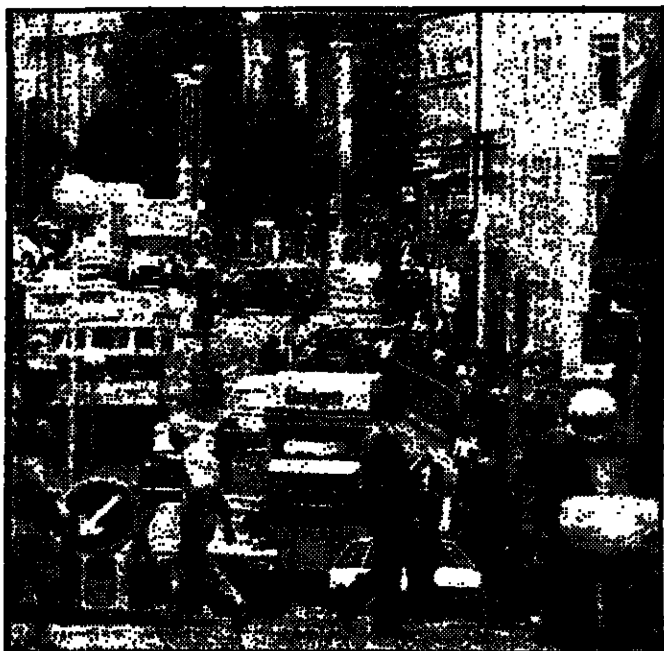
The results of an exclusive opinion poll show that many fund managers are determined to reduce the number of securities firms that they deal with after Big Bang, and that they have a clear awareness of the relative quality of service provided by the individual firms in various business areas.

The ranking of the major firms gives a clue to which of the new securities groups will find it easy or hard to survive in the much more competitive conditions likely to be experienced from now on.

In several respects, however, the investment institutions appear to be unprepared for the new structure of the securities markets. There is no clear pattern in the responses to the questions on net trading, or the remuneration of research. A few more institutions expect to install in-house dealers after Big Bang, but most still have no plans to do so, at least in so far as can be judged on the basis of fieldwork carried out during the first two weeks of September.

An important conclusion from the survey is that many fund managers are critical of, and even bitter about, the way that the major changes in the securities markets are being handled.

Many have felt comfortable with their relationships with agency brokers, and are concerned that they will no longer be able to trust their advisers in future. As a result, agency broking for a commission could continue to represent a large, perhaps dominant, proportion of business for a considerable time to come.


A crossroads for the City?

AN OPINION poll based on interviews with 125 leading fund managers in all types of investment institutions has been conducted by MIL Research for the Financial Times.

Respondents were asked a series of questions relating to the impact of the Big Bang changes on their business. They were also asked their opinions of the quality of service likely to be provided after Big Bang by a number of the leading securities firms in London.

How many brokers do you currently deal with?

Less than 10	10-19	20-29	30-39	40-49	50-59	60 or over
10%	22%	27%	15%	11%	7%	8%

How many brokers do you deal with regularly?

Less than 10	10-19	20-29	30-39	40-49	50-59	60 or over
30%	46%	14%	6%	1%	1%	1%

Will the number of brokers you deal with increase or decrease after October 27?

Increase	Decrease	Stay the same	Not stated
11%	52%	34%	3%

What is the likelihood that a few large firms of brokers will come to dominate the market after Big Bang?

Very likely	Quite likely	Quite unlikely	Very unlikely	Not stated
30%	54%	12%	2%	3%

Will American firms become more or less heavily involved in the London market after October?

More heavily	Less heavily	Same as at present	Not stated
91%	1%	6%	2%

Will Japanese firms become more or less heavily involved in the London market after October?

More heavily	Less heavily	Same as at present	Not stated
76%	2%	19%	2%

Does your firm currently employ any in-house dealers?

Does employ	Does not employ	Not stated
35%	64%	1%

Will your firm employ any in-house dealers after October? (This question was only put to respondents replying "no" to the previous question).

Will employ	Will not employ	Not stated
11%	83%	6%

What percentage of your total securities business do you expect will be carried out on a net, rather than commission, basis after October?

nil%	1-24%	25-49%	50-74%	75-99%	100%	not stated
4%	18%	16%	22%	8%	2%	30%

How do you perceive you will be paying for research when dealing on a net basis after October?

	%
An annual flat rate fee	12
A fee per transaction	21
Percentage on each bargain	15
Included in net price	9
On volume basis	6
Other method	6
Will not pay for research	10
Don't know	20
Does not apply (will pay commission)	6

Do you foresee a growth of independent research houses after October?

Yes	No	Not stated
38%	60%	2%

THE RESPONDENTS

Type of fund management organisation:

Insurance companies	Investment trust companies	Unit trusts	Pension funds	Investment advisers
32%	21%	10%	25%	13%

Value of funds managed:

0-£199m	£200-499m	£500-999m	£1,000-1,999m	£2,000m & over
13%	17%	15%	11%	44%

Copies of the full report, "Dealing with the City Revolution," are available from MIL Research Group Ltd, 1 & 2 Berners Street, London W1P 3AG. Tel: 01-637 1444. Price £240.

Workers of the Revolution . . . an autumn morning on London Bridge.

Thirteen firms under scrutiny

THE 125 fund managers responding to the survey were asked by MIL Research for their views on the quality of service available from 13 major London securities firms in five major activities. These were:

● The ability to make attractive markets in equities as a principal.
● Equity research capability.
● The ability to act efficiently as an agent in equities.
● The ability to make markets in gilt-edged.
● The ability to make markets in the UK in international equities.

Twelve established London firms were chosen. They were Barclays de Zoete Wedd, James Capel, Cazenove, County Securities, Greenwell Montagu, Hoare Govett, Kleinwort Grieveson, L. Messel, Phillips & Drew, Scrimgeour Vickers, Warburg Securities (formerly Rowe & Pitman/Akroyd) and Wood Mackenzie (actual trading names in different activities may vary slightly).

These are believed to be the largest firms in terms of business volumes, but no published figures are available, and it cannot be claimed that the survey is comprehensive in its coverage. For instance, it is possible that two other firms, Chase Manhattan Securities and Alexanders Laing & Cruickshank, may rival in size some of those included in the survey.

It should also be pointed out that not all the firms will be offering all the services after Big Bang, and so may be omitted from individual tables. For example, James Capel will not be making markets in equities.

One American firm, Goldman Sachs, was also included, to provide an indication of the initial standing of a representative of the big US securities firms.

Respondents were asked to give a rating for each securities firm on a scale of one to 10 in each of the five categories. The scores given represent the mean score. In some cases the firms will not be commencing the relevant activities until today's Big Bang, so the ratings reflect anticipation of their likely performance rather than actual experience of dealings with them.

EQUITY MARKET MAKING

Firm	Score
Rowe & Pitman/Akroyd	7.5
Barclays de Zoete Wedd	7.3
Hoare Govett	7.2
Phillips & Drew	7.2
Goldman Sachs	6.8
Scrimgeour Vickers	6.7
Kleinwort Grieveson	6.4
County Securities	6.1
Messel	6.1
Greenwell Montagu	6.0
Wood Mackenzie	6.0

EQUITY RESEARCH

Firm	Score
James Capel	8.2
Phillips & Drew	7.4
Scrimgeour Vickers	7.3
Hoare Govett	7.2
Wood Mackenzie	7.1
Barclays de Zoete Wedd	6.5
Rowe & Pitman/Akroyd	6.4
County Securities	6.2
Kleinwort Grieveson	6.0
Greenwell Montagu	5.9
Messel	5.4
Cazenove	4.7
Goldman Sachs	4.4

AGENCY BROKING IN EQUITIES

Firm	Score
James Capel	7.9
Cazenove	7.0
Phillips & Drew	6.8
Hoare Govett	6.7
Rowe & Pitman/Akroyd	6.6
Scrimgeour Vickers	6.6
Barclays de Zoete Wedd	6.5
Wood Mackenzie	6.4
Kleinwort Grieveson	6.2
County Securities	6.1
Greenwell Montagu	5.7
Messel	5.7
Goldman Sachs	4.6

MARKET MAKING IN GILTS

Firm	Score
Greenwell Montagu	7.4
Phillips & Drew	7.0
Barclays de Zoete Wedd	6.9
Rowe & Pitman/Akroyd	6.9
James Capel	6.5
Hoare Govett	6.5
Kleinwort Grieveson	6.5
Scrimgeour Vickers	5.9
Goldman Sachs	5.6
County Securities	5.4
Messel	5.4
Hill Samuel Wood Mackenzie	5.0

MARKET MAKING IN INTERNATIONAL EQUITIES

Firm	Score
Goldman Sachs	7.0
Rowe & Pitman/Akroyd	6.4
Hoare Govett	6.2
Phillips & Drew	6.2
Kleinwort Grieveson	6.0
Barclays de Zoete Wedd	5.5
Messel	5.5
Scrimgeour Vickers	5.4
County Securities	4.9
Wood Mackenzie	4.6
Greenwell Montagu	4.5

OVERALL

Firm	Score
James Capel*	7.6
Phillips & Drew	6.9
Hoare Govett	6.8
Rowe & Pitman/Akroyd	6.8
Barclays de Zoete Wedd	6.6
Scrimgeour Vickers	6.5
Kleinwort Grieveson	6.3
Greenwell Montagu	5.9
Wood Mackenzie	5.9
Cazenove*	5.8
County Securities	5.8
Goldman Sachs	5.7
Messel	5.7

*The position of these firms in the overall table must be qualified, because they do not carry out all the activities rated.

Fund managers take a wary view

"IT'S GOING to be jolly good fun to see who survives," said one pension fund manager, looking forward to the post-Big Bang struggles of the securities firms in a way which suggested he would have felt at home in Nero's Rome.

But the general impression given to MIL Research's interviewers by the 125 fund managers, polled about two months ahead of Big Bang, was that they were wary of the changes, and often hostile.

Commissions would fall, and liquidity would improve in the leading stocks, but there would be important offsetting problems. For instance, liquidity in the second-liners might deteriorate, and conflicts of interest would intensify, undermining the relationships between brokers and fund managers.

"The old system needed breaking up. There are too many players in the market," was one firmly positive view. Another fund manager looked forward to a considerable reduction in commission rates — by at least half. He also thought conflicts elsewhere would rebound to his own organisation's advantage.

"There will be conflicts of interest within the financial conglomerates, and this will be of benefit to independent investment managers such as ourselves," he considered.

An investment trust manager expected "some reduction in the grotesque overcapacity in the institutional broking industry."

Much the same view was expressed by a pension fund manager who said: "It will result in the thinning out of what, in our opinion, is an overmanned industry."

He added that it was hard to see disadvantages to the consumer in increased competition. "We are looking forward to it with some enthusiasm. The firms that survive will be those that provide a high level of after-sales service, and are responsive to the needs of the client."

One manager, at a relatively small independent company, predicted problems for private individuals who would find it hard to get the previous level of service at the same price, but saw this as presenting a business opportunity. "There'll be more companies like ourselves looking after private clients."

A representative of a major pension fund saw advantages for the major institutions able to maintain a central dealing desk. "They will be able to obtain keener prices than their smaller competitors," he said.

But many fund managers expressed suspicion, and even bemusement, about the consequences of Big Bang. "The main thing is that we will be making no changes until we see what happens. We will be reactive, and leave it up to the broking firms," was the opinion of one fence-sitter.

A unit trust manager frankly hoped the whole problem would go away. "We're keeping an open mind on it. But we are not changing our policy at all. We want to keep things as they are."

Some expressed their frustration more forcibly. "It's a bloody nuisance from our point of view. We'd like to know where we are in dealing, and who we can trust. That goes out of the window now, we'll have to deal less efficiently," said an investment trust manager.

"I think it's a retrograde step in all directions. Pretty well every analyst will be prejudiced," said a unit trust man. "It's probably a retrograde step in most people's eyes," another investment trust respondent considered, although he accepted that it had to happen.

An insurance company fund manager was totally negative. "I'd rather be without Big Bang," he insisted. "I can't see there'll be any benefit to us. It's a good way to increase the wages of stockbrokers without any advantage to institutional investors."

"I think it's going to be a disaster," ventured a unit trust representative, and forecast that the new system would not be sustainable. "Within five years new businesses will be set up on the old basis and market makers will become jobbers."

"It is the biggest upheaval for two generations, and will be fraught with problems and spilt blood," warned another pessimistic investment trust man. "There will be a period of extreme volatility in the share markets. But it will be good news for the independent investment manager, because appalling conflicts of interest are arising."

Jeremiahs were plentiful, especially in the investment trust sector. "It's difficult to see the advantages of disturbing a system which has worked so well," said one. "It may lead to a freer market, but I doubt it. I can't see my job being any easier, managing funds."

And according to another: "It's a disaster—short and sweet. I think it's a charter for dishonesty. That's my total conclusion. I can't think of any advantage for anyone. I can imagine a lot of people are going to lose a lot of money."

"I will have to be more careful about who I deal with," commented a unit trust manager. "My instinct is only to deal with firms which do not make markets."

The difficulty of securing independent advice was a common concern. "Up till now brokers have been our agents, but now we will be talking to, essentially, salesmen. Where will we get our impartial advice? The changing role of the agent is a negative factor," said the manager of a fund in the £2bn-plus bracket.

"There is still plenty of room for agency brokers if they can add value for institutions," suggested a manager with a big independent house. "It will be very important for the new integrated organisations to establish a high level of trust and credibility with money managers."

Regulation, or the lack of it, was another area that caused concern amongs respondents to the survey. "The changes have been rushed through," commented an insurance man. "We're not sure if the techonology is there, and the regulatory bodies have not been sorted out yet. There is a lot of confusion generally."

"We are in for it. People don't understand all the chaos that will be involved," said a merchant banker. "The big problem is that the politicians have removed the regulation, and it is doubtful if they are going to put an effective system in its place. So there will be a void."

He foresaw "a lot of firms going down." He did not, however, suggest that he would enjoy watching the spectacle.

Barry Riley

This was how they responded

Fund managers were asked for their views on the advantages and disadvantages of Big Bang and the changing securities markets. Here are the proportions of these putting forward the more commonly held views.

	%
Dealing costs will be reduced	32
The market will be more competitive	16
Big institutions will obtain keener prices	13
Reduced liquidity in second-line stocks	11
Preferred old system	11
Smaller securities firms will be squeezed	13
There will be a shakeout among new market makers	16
Concerned about conflicts of interest	21
Chaotic conditions will result	16
Quality of equity research will suffer	11

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REGULATION

London's Big Bang is taking place well ahead of the implementation of a new regulatory framework for the British investment markets, to be provided by the Financial Services Act. The challenge will be to achieve the right combination of statutory and self-regulatory supervision.

Shareholder Protection

New rules will help private clients

BIG BANG has been inextricably linked with moves to improve protection for investors.

In fact, the basic changes in the City's regulatory framework are dependent on the new Financial Services legislation, giving statutory powers to the Securities and Investments Board (SIB) early next year.

The new rules will probably not come into operation until the second half of 1987. However, the planned self-regulatory organisations (SROs), including the Stock Exchange, which will operate under the supervision of the SIB, are already revising their rules to come into line with the proposed new framework. It is not an easy task, partly because of uncertainty about exactly what the new requirements are going to be, and partly because of divisions within the individual self-regulatory organisations.

The whole City has long acknowledged that the old informal code of conduct, based on the principle of "my word is my bond," is no longer practicable in this modern day, with much wider trading interests well beyond the control of some exclusive inner circle. So changes are inevitable.

Essentially, the aim is that investors will receive greater protection under the new regulatory regime, even though the rules may be rather more complicated.

The Stock Exchange is in a special position in that it has to revise its rules prior to the Financial Services Bill even receiving Royal Assent, in order to cope with the new system of trading being brought in by Big Bang. But the situation remains somewhat confused, with some changes being implemented straight away and others delayed.

The Stock Exchange has not only to change its rules to cope with the new market structure introduced, it also has to cover the merger with the International Securities Regulatory Organisation (Isro) and further possible amendments that may be insisted upon by the SIB later.

The Stock Exchange is different from other self-regulatory organisations in that it already has a sophisticated and comprehensive set of regulations aimed at protecting the investor directly. There is, for example, a compensation fund and a huge rule-book with many regulations specifically to protect the investor.

The changes and additions, proposed to bring the Stock Exchange into line with the general framework, therefore do not really promise any brave new world for investors.

Indeed, stockbrokers fear that the main innovations will be greatly increased paperwork, and restrictions that may harm rather than benefit the investor.

For example, the new "best execution" rule only really puts on paper what any stockbroker should already be doing for their clients—that is getting the best available price. With jobbers gone, the broker will have to take all reasonable steps to ensure that the price obtained by the client is as good, or better, than the best price diplayed in that security in a comparable size on the Stock Exchange Automated Quotations (SEAQ) system.

Brokers, who are also market makers, will be entitled to ask their own in-house dealing operations to see if they can match the best price shown on the screen. Otherwise they will have to put the business with the firm offering the best rate.

SEAQ itself provides a useful tool for increased investor protection. All the market makers will have to display their dealing prices, and time-stamp transactions (initially on a voluntary basis). A continuous record of prices will be displayed. So, if a client objects that the best execution has not been achieved, the exchange will be in a position to check dealings around the time stated and see whether the complaint is justified.

The surveillance division of the exchange will have access to all the transactions at the push of a button; and, at the same time, its inspectors are proposing to undertake sample checks of transactions, to see if they are at best execution. This record of transactions should also help solve a lot of the existing disputes about the timing of bargains, late bookings and even non-delivery of share certificates. After all, if it is on record that a broker has bought certain shares on your behalf, you have a much more powerful case for demanding possession of the appropriate certificates.

The new excessive trading rule is based on common sense and the government concept of "know your customer." It says that any member company should not transact deals which are excessive in size or frequency in relation to the financial situation and investment objectives of the client.

Another of the proposed new rules, which, however, will not become mandatory until the SIB formally comes into existence, is what is known as the client agreement letter. The basic idea is that all clients, except those trading on an execution-only basis, have to give written permission authorising the stockbroker to act on their behalf. The type of authorisation will vary according to the relationship between the client and stockbroker, and how much discretion the client wants to give the broker. There is also an obligation on any member company of the Stock Exchange to keep clients informed of any non-material changes which might affect that relationship.

Many brokers, for instance, will be explaining to clients the new set-up of the company, and its subsidiaries, in preparation for the changed structure after Big Bang, which may have a direct or indirect effect.

In fact, all the signs point to clients being deluged with letters and forms as the transition to the new trading system takes place.

Many stockbrokers have already appointed, or are under pressure to appoint, special compliance officers who will be responsible for ensuring that the new regulations are enforced and that the investor receives the full protection available.

Although many brokers believe that the previous Stock Exchage regulations were full and comprehensive enough to protect even the most innocent investor, the fact remains that, under the new structure, with the flimsy so-called Chinese walls separating subsidiaries with conflicting interests, there is an additional need for the investor to be made confident he is not being exploited or misled. The introduction of extra precautions giving investors a clear picture of what is going on is an important part of that confidence-building process.

So a set of rules and codes of behaviour is being introduced, to try to minimise the potential conflicts of interest.

The SIB is expected to insist that segregated accounts be created by brokers for clients. But the Stock Exchange claims that a better, and more practicable, solution is its compensation fund.

The argument is that anyone with fraudulent intent can manipulate segregated accounts, which can be immensely complicated to set up for clients trading regularly on a discretionary basis. From the client's point of view, it is preferable to be compensated for any money fraudulently diverted rather than having to pursue the offender who might well have departed abroad with the money. It is then up to the Stock Exchange to protect its compensation fund from excessive claims by ensuring that the member companies do not step out of line.

As a further back-up, to help investors sort out any grievances, it is planned to appoint an Ombudsman, similar to those used by other financial institutions like insurance and banking.

This will be particularly helpful to the small investor, who, at the moment, often feels he is fighting a losing battle against the big battalions. The institutions are more than capable of looking after themselves in the harsh competitive conditions that are likely after Big Bang, so the increased protection is very much geared to the smaller, private, investor who is most vulnerable

John Edwards

The SIB

An omelette yet to be tasted

WHEN PROFESSOR L. C. B. "Jim" Gower produced his blueprint for a comprehensive overhaul of Britain's investor protection legislation, he favoured the establishment of a self-standing commission to act as chief watchdog over the new system.

In the event, and largely as a result of a rearguard action led by the Bank of England, this proposal to entrust the task of securities regulation to a quango was replaced by something very different: a private City body, in the form of a company limited by guarantee, called the Securities and Investments Board.

The SIB, as it is known, was set up under the chairmanship of Sir Kenneth Berrill, a former senior partner of brokers Vickers da Costa and ex-head of the now defunct Central Policy Review Staff, in advance of the legislation that provides the board with its *raison d'etre* and regulatory powers.

In due course, when the Financial Services Bill is enacted next year, it will become a "designated agency," in the bill's legalese. In other words, when the Secretary of State for Trade is satisfied that it is up to the job, he will delegate authority to the board, which will then become the linchpin of the new system of self-regulation within a statutory framework.

Broadly speaking, its mission is to propagate rules for the conduct of securities business in Britain, to conform with broad principles laid down in the bill. These will then provide a benchmark, or set of minimum standards, for the investment fraternity. If the SIB is satisfied that a self regulatory organisation (SRO) is capable of providing at least equivalent standards in its rules, it can then recognise the SRO, which in turn will have the power to authorise its own members to carry out securities-related business.

Alternatively, the SIB can authorise investment businesses directly, though Sir Kenneth Berrill is anxious to delegate as much of the task as possible to the SROs. Thereafter the board will be responsible for reviewing the conduct and performance of those to whom it has given its fiat.

How credible a watchdog is it? Positive attributes include the fact that it will be administering a more comprehensive and detailed regulatory framework than the muddled patchwork that preceded it. The SIB, like the whole system, is practitioner-based, which Prof. Gower regarded in his original review as potentially the most effective form of regulation. Without adequate input and co-operation from those who operate in City markets, the regulators would stand little chance of keeping abreast of events, especially in the light of the recent acceleration in the pace of financial innovation.

Sir Kenneth Berrill attaches importance to the fact that the board can pay private-sector salaries to its staff. Throughout the passage of the bill he has argued against Labour spokesmen's demands for the SIB to be turned into a statutory commission partly on the ground that a public sector body could not attract the best City talent with civil service pay scales.

The board's powers have been substantially increased in the course of the bill's passage through parliament. As a result of pressure from both the opposition and from Tory backbenchers, the Secretary of State will delegate not only powers of authorisation and regulations, but the power to investigate and prosecute as well. The committee stage of the bill thus turned this private body into a criminal prosecution authority—a highly unusual arrangement, but one which certainly begins to address the initial fear that this watchdog would lack teeth.

That said, the board's mandate is not all-embracing. Unlike the US Securities and Exchange Commission, for example, it is not responsible for the registration of securities offerings. And for reasons that may have more to do with history and particular individuals' powers of persuasion, the Takeover Panel has been left to enjoy relative autonomy outside the system.

More important, there are some in the City, as well as in Westminster, who believe that the SIB has already suffered the fate of countless other regulators by being "captured" by some of the people it has to regulate. While the Financial Services Bill lays down a principle of "equivalence" between different sectors of the financial services industry—or, in the jargon, a level playing field—sales practices that are outlawed for securities salesmen are to be permitted for the insurance business.

Specifically, MPs had urged the SIB to compel insurance salesmen to disclose commissions and charges on policies in all cases, but with no success. They point to the presence of the supremely persuasive insurance super-salesmen Mr Mark Weinberg on the SIB board in explanation.

Others are concerned that Trade Secretary Mr Paul Channon gave in to pressure from the more vociferous elements in the international markets in the City to grant legal immunity to people who sit on the boards of self regulatory organisations. This retreat from the original proposals in the bill was apparently inspired by threats that foreign practitioners would be reluctant to serve if they risked legal action from angry investors.

At the other end of the scale are those who argue that the SIB's rules are so detailed and complex that they will make it difficult to do business. Many of their complaints focus on the sheer number of SROs (and Recognised Investment Exchanges) with which a single firm may be obliged to deal. Any banking conglomerate, for example, that proposes to carry out business in gilts, equities, futures, fund management and insurance, as well as commercial banking, could well end up dealing with half a dozen regulatory authorities, including the Bank of England.

The pending merger between the Stock Exchange and the International Securities Regulatory Organisation (Isro), which represents leading firms in the Eurobond market, will help narrow the field. A further move to mitigate costly duplication is the decision to designate a "lead" SRO for the purposes of monitoring capital adequacy and liquidity.

It could have been worse. Those SROs that seem likely to win recognition from the SIB are, with the exception of the Stock Exchange, not synonymous with the old City clubs. The Accepting Houses Committee is an obvious example of a long-standing City grouping which has been left on the sidelines, as the powers that be seek to regulate more on the basis of function than of historic associations.

How well the new system stands up to the test of the new environment after the Big Bang remains to be seen. For a start, it will not come into operation for some months. And there are very different degrees of experience and ability in the SROs. Even some of those involved in getting the SIB off the ground expect a measure of trouble in the brave new world. In the words of one senior City figure who prefers to remain anonymous, you cannot make such a novel omelette without breaking the odd egg.

John Plender

Q. What's the simplest way to:
access real time information from the Equities, Money, FX, Bonds, Energy and Commodities markets;
summon and analyse graphic displays;
calculate arbitrage opportunities;
contact other dealers worldwide in less than four seconds;
conduct dealing conversations and access the world's largest independent news service?
A.
REUTERS

Chinese walls

Codifying the split personality

THERE IS nothing particularly novel in the existence of potential conflicts of interest within a financial services grouping. Nor is there anything startlingly original in the building of barriers to internal communication which are known colloquially as Chinese walls.

What is new, in the City, is the ability to combine within such groupings businesses that trade as market makers on their own account and others which act in an agency capacity. Such a combination contains the seeds of possible conflicts additional to those which have existed traditionally in the stockbroking industry.

What are those traditional areas?

They have arisen from the existence, within a single broking firm, of departments each acting as adviser to different parties who themselves have conflicting aims and requirements. Thus, in the larger broking organisation, there may already exist a corporate finance function advising on takeovers and capital-raising; a fund management side acting largely on a discretionary footing; in addition to the agency business executing orders for institutional and private clients, and a research department which will influence the investment strategy and individual policies of the firm's clients and fund managers. In a few cases the firm may also be one of the Stock Exchange money-brokers involved in stock lending to the jobbers.

To date, the internal barriers have been constructed to separate, principally, the corporate finance and, where they exist, the money broking departments from the others. The dangers of misuse of sensitive information have been well-recognised, and its prevention appears on whole to have been successful, by means of a combination of physical constraints and management style.

The term "Chinese walls" contains a distinctly physical flavour, but success depends in part on the attitude of mind of those who live behind or beside them. The Licensed Dealers Rules contain a definition which usefully illustrates the point:

"Chinese walls means an established arrangement whereby information known to persons involved in one part of a business is not available (directly or indirectly) to those involved in another part of the business and it is accepted that in each of the parts of the business so divided decisions will be taken without reference to any interest which any other such part or any person in any other such part of the business may have in the matter."

Insider Dealing is the subject of existing law, but practices of fair dealing, of best execution and for avoiding conflicts of interest have to date been largely uncodified. That will change with the new Financial Services legislation, accompanied by the rules formulated by the Securities and Investment Board and the self-regulatory organisations.

With the implementation of such written codes will come the need to monitor compliance. Thus, an additional feature of the new environment will be Compliance Officers, who, among other things, will be searching for evidence that Chinese walls have been breached or that their thickness has proved inadequate.

To summarise the position, the critical new element that is appearing on the scene, and which creates the potential for significant interest conflict, is the addition of a market making arm to an organisation involved in many other aspects of securities advice. In consequence, the relationship between, in particular, research, corporate finance, fund management and position-taking departments will be critical features. The activities will furthermore be subject to detailed regulation.

The Chinese walls which represent a barrier to communication of, or access to, sensitive information can be broadened, heightened or otherwise reinforced in a number of ways. It may be by geographical separation of offices, by individual incorporation of different activities and by independent boards of management.

It is certainly true that, with the aid of a telephone, opportunities exist even then for privileged information to be improperly communicated if the individuals concerned are so minded, but the likelihood of inadvertent communication or personal contact fostering the conditions for collusion are clearly lessened where the personnel are deliberately kept at some distance.

A number of groupings are installing their fund management departments, as well as their corporate finance divisions, in separate buildings; while communication at board level may well be kept to an absolute minimum, with perhaps only a non-executive chairman being common both to the board of the entity and to that of the holding company and other fellow subsidiaries.

Where the group is involved in market-making, it seems likely that the institutional sales teams will sit in the same dealing room as the market makers. The argument for this is that any separation of such personnel will frustrate the duality of function which changes in Stock Exchange ownership rules were framed to facilitate. Furthermore, there will be reluctance to afford direct access to the dealers while the institutions themselves may well in many cases prefer to operate through the institutional salesmen with whom they are familiar.

Where the counterparties are themselves dealing as principals, this proximity creates no problems. There is also the constraint that the sales teams may be unwilling to respond merely to the bidding of market makers in the short-term interest of in-house positioning in stocks, if that is going in the longer term to undermine their and their group's reputation and the relationships with the investing counterparties.

There is, however, a well publicised worry in the minds of some members of the investing public that, for example, the fund managers and the private client account managers within a financial conglomerate may have pressure put upon them to assist the market making division. A not dissimilar worry has, of course, also been expressed on occasion with regard to corporate finance departments. Thus that concern is not new, and should be alleviated by the evidence of proper in-house regulation designed to prevent such abuse.

The agency side of such a business will be conscious of the same problems, if it misbehaves, of loss of reputation, as indicated earlier for the institutional sales department. In its case, there will be added the obligations imposed upon the agent for acting in the best interests of the client, particularly in sensitive areas where physical separation may also be of considerable assistance in producing client confidence.

We are indebted to the US for many of the expressions that are coming into common use to describe market practices in the financial services area. One of them is "Front-Running," a term which usefully illustrates the problems that the financial conglomerate will be facing. It relates to the creation of a position in securities, whether long or short, in advance of the publication of price-sensitive information produced by, or known to, other parts of the group. The barriers with the corporate finance function should be such that this cannot occur.

A financial services grouping will, however, need to decide two points on its in-house research. What sections of its conglomerate business will be served by a particular team? And how will the release of information in-house be timed?

So far as servicing departments with research material are concerned, two main views are currently held. One is that business should be serviced by a research team dedicated solely to its needs, with a separate team communicating with clients and other parts of the organisation. The second school of thought is that such duplication of effort is both unnecessary and conceivably unwise.

Whichever route is adopted, it needs to be decided whether the market will be given prior information regarding a prospective buy or sell recommendation to published by the firm.

There is an understandable view in some quarters that the clients of such a grouping are not best served if they receive a recommendation to buy a stock at a time when that group is itself not particularly well placed to provide the stock at the price recommended. The argument would run that, provided the market maker had built up a line in that security ahead of time from sources which were independent of the group's clients, it can hardly be said to have taken unfair advantage of those clients.

The use of prior knowledge of research recommendations does, of course, assume that generally the market is not itself indifferent to research recommendations, or that it does not normally take a perverse view. There will, nonetheless, be occasions when prices do not move in the way one might expect in the light of published research.

In order to avoid any implication that sensitive information contained within a corporate finance area can be misused, some advocate the creation in-house of "stop lists," thereby effectively preventing any dealing in the securities of the corporate finance department's clientele until the price-sensitive information has been generally published.

The counter-argument is that the existence of a stock on a stop list will itself create rumours and potentially false markets, with just the inappropriate activity that the lists were designed to avoid.

Different organisations may find different answers to this particular problem; but, whatever their general conclusion, it seems likely that from time to time circumstances will demand some restrictions on dealing in particular securities. It is conceivable that the regulators will demand greater separation of certain functions unless a stop-list procedure is created.

Physical and communications barriers will not themselves be sufficient to prevent abuse by those determined to behave improperly. Nor will they function efficiently, unless they are seen as part of the visible evidence of the attitude of management to best business practice. It is that attitude and the culture of the organisation which ultimately will be of critical importance.

John Waddington
Spicer and Pegler

Trade Secretary Paul Channon . . . signed a memorandum of understanding to govern confidential exchanges between Britain and the US

International regulation

Watchdogs follow the sun

HUGE STRUCTURAL changes in the capital and financial markets are the stuff of nightmares for bank supervisors and securities watchdogs. While the Bank of England has played a key role in precipitationg the upheaval in the City of London, it is now acutely conscious of the inherent risks.

But why, it might be asked, is there an international dimension to the risks arising from the deregulation of the Stock Exchange, whose business is primarily domestic? The short answer is that the domestic and international securities markets are rapidly converging, most notably at the top end where the capital of leading multinational companies has come to command an international following.

As other writers in this survey have indicated, advanced technology, combined with the powerful political impetus to liberalise capital flows across the world, has opened the way to 24-hour trading, not just in the short-term financial markets but in the long term bond and equity markets as well.

For the regulator, this raises novel questions about prudential supervision and standards of conduct in the newly internationalised market. Perhaps the most important concerns the way in which shocks in one financial centre can be transmitted instantly across the world to other financial centres, with destabilising results for the banking system as well as the securities markets.

That problem is exacerbated by the trend towards conglomeration. In London, the Government has encouraged clearing banks and merchant banks to merge with brokers and jobbers; but once the functions of a commercial bank, which are primarily concerned with deposit taking and lending, are merged with the functions of what the Americans call an investment bank, which issues, distributes and trades in securities, regulatory responsibility for the conglomerate becomes fragmented.

Different watchdogs monitor different parts of the conglomerate beast. If they fail to co-ordinate their supervisory activities, there is a risk of overlap and, more worryingly, underlap in their arrangements. That risk is then multiplied by the presence of foreign-owned financial conglomerates in the London market, whose activities spread across numerous national and regulatory boundaries.

Yet international co-operation and co-ordination are complicated by the existence of very different regulatory and legal structures in different countries, as well as different perceptions about common and conflicting interests. The problem is particularly acute where there is a legal divide between commercial and investment banking as in the US and Japan.

Where the conduct of practitioners is concerned, the internationalisation of markets means that it is no longer possible for regulators to rely on the club ethic. The power of the authorities in London, in relation to the big new multinational banking and securities firms, may well be less than they would wish. Certainly, there is a case for buttressing regulatory authority through co-operation with other watchdogs and for fostering exchanges of information to curb malpractice, such as fraud or insider dealing. All forms of market abuse have shown a natural tendency to go international in response to change in the markets themselves.

As yet, there is no equivalent, in the securities markets, of the Cooke Committee of the Bank for International Settlements, which links the leading central banks in a network of supervisory arrangements to cope with the potential shocks to the international financial system. The nearest thing to a multilateral forum for discussion of the issues is the International Association of Securities Commissions, which started life with a purely North and South American membership.

With encouragement from the US, this has now been expanded to include European and other countries. But the group is cumbersome, by comparison with the tightly-knit Cooke Committee, and has some notable absentees. To cope with a role commensurate with the growth in international securities trading, the association would probably need a much enlarged secretariat and a degree of like-minded commitment to shared objectives on the part of the members that is rare in such gatherings.

Officials in Whitehall and the Bank of England therefore expect more progress to emerge from bilateral agreements. And at the end of September one such agreement between Britain and the United States emerged: the Trade Secretary, Mr Paul Channon, signed a memorandum of understanding with the Securities and Exchange Commission and the Commodities Futures Trading Commission, which is designed to govern confidential exchanges of information between the two countries.

The chief thrust of the memorandum is towards matters of conduct. The targets are insider dealing, fraudulent misrepresentation by dealers, markets manipulation, especially in the cornering of commodity markets, and excessive buying and selling of securities to give a false impression of activity. There are, however, some provisions for exchanges of information relevant to systemic shocks notably in relation to capital adequacy, competence and honesty.

Bank of England officials, for whom the systemic questions are paramount, acknowledge that this is merely a start. As yet, nobody has a clear idea how the regulatory authorities should monitor capital adequacy when an international firm passes its positions in securities dealing—its book—from one financial centre to another as the sun moves across the globe.

In the gilt-edged market, the Bank has insisted on separate capitalisation for dealing subsidiary concerned, together with letters of comfort—a non-statutory form of assurance—from foreign and domestic parent companies. These include a commitment to stand behind the gilt-edged dealing subsidiary in the event of trouble. But it recognises that, in the wider international context, any formula for capital adequacy will have to give credit for the efficient use of capital within a conglomerate group.

No doubt a formula, or set of formulae, will ultimately be agreed between the key regulators in London, Tokyo and New York, which are the financial centres most crucially affected. But none of those involved expects it to be other than a long and difficult process.

John Plender

The Takeover Panel

Consensus looks fragile in a tough world

THE CITY revolution poses a major new threat to a delicate and unique British institution—the Takeover Panel, the body which polices the complex framework of regulations that governs UK takeover battles.

Set up at the end of the 1960s, amid mounting concern over the rough tactics entering takeover contests, the panel is a self-regulatory City body whose powers are those of censure and suasion. Its writ runs because the City collectively believes this to be in its interests.

However, in recent years there have been growing doubts as to whether the panel can survive in a world where takeover tactics have been growing rougher and tougher, and where protagonists have been increasingly taking to the courts in an effort to clinch victory. With the will to win paramount, the old City consensus is looking fragile, and so too, therefore, is the panel, its creation.

These existing concerns are being greatly magnified by Big Bang, for several reasons. First, it is likely to produce even more cut-throat competition among professional advisers in the mergers and acquisitions business—merchant bankers, stockbrokers, solicitors etc—which will throw up further challenges to the panel's authority. The arrival in the London market of some major and highly aggressive American investment banks, not used to the City's traditional ways, could accentuate this trend.

Second, the panel has rejected the idea of having links with the Securities and Investment Board, the new umbrella City regulatory body, which will have statutory legal powers. The panel will not have any such legal status.

It argues that this will preserve two of its great virtues—speed in decision-making, and flexibility in both the contents and interpretation of its rule book. It maintains that it needs to be seen as the final arbiter in any dispute, and not a mere step in a legal chain: if its authority derived from statute, the tendency would be for protagonists to appeal against its decisions all the way up through the courts.

The counter-argument to this, however, is that the law is already becoming an important factor in takeover battles, and that ultimately this will so sap the panel's authority that Britain will be forced to introduce a formal, legalistic framework for takeovers, such as that employed in the US.

A precedent for legal involvement in bid battles was set in December 1984 when Currys, the electrical retailer, went to the High Court in an unsuccessful attempt to block the £248m takeover of the company by Dixons. The complaint centred on the manner in which Dixons had claimed victory, and the panel took the view that this related to contract law, rather than the takeover code, and was therefore not within its jurisdiction. It took the same view a few months later in a court case over the bid by Newman Tonks for Cartwright.

So far, no company has challenged head on in the courts any ruling by the panel. However, critics would argue that this is partly because the panel, perhaps fearing that its members might be sued, has just not been tough enough in its rulings.

Furthermore, it seems only a matter of time before some company does take to the courts to challenge the panel, in what would be a crucial test of its authority. This could have happened last December, when Scottish and Newcastle Breweries claimed victory in its takeover battle for Matthew Brown. The defending company, and its financial advisor, J. Henry Schroder Wagg, appealed to the full Takeover Panel against the panel executive's decision to back S and N. Matthew Brown hinted that it would take the matter to court if it lost—but the full panel upheld its appeal.

The body's fate is likely to depend in considerable degree on its ability over the next few years to take some tough, unpopular decisions and make them stick. And that, in turn, will depend in no small measure on the qualities of the small executive team, seconded from merchant banks and law firms, which runs the panel on a day-to-day basis.

It is a frequent lament in the City that the panel lacks the authority it had in the good old days when it was commanded by its founder chairman, Lord Shawcross, and had as director general Mr Ian Fraser. Shawcross, in particular, used to deliver dressings down that would make the most hardened merchant banker tremble. But he had the advantages of a remarkable personality and being in at the beginning, and thus able to improvise as he went along.

Big Bang presents an altogether more difficult framework for the current chairman, Sir Jasper Hollom, and Mr John Walker-Howarth, who took over late last year as director general. Since then, the panel has taken several decisions which have gone some way to mitigating its reputation for pussy-footing.

The most notable was a tough new code, announced in March, which clamped down on advertising in bids, in a move to counter the increasingly vituperative tone of "knocking copy" put out by takeover protagonists. All but the most innocuous newspaper and television advertisements were banned.

The move brought howls of protest at the time from the advertising industry, and was also criticised by some sections of the City. But it has been obeyed, and the quality of information on offer has not suffered noticeably. In short, the edict must be regarded as a substantial feather in the panel's cap. Despite all the gloomy prognostications, there is life in the body yet.

Martin Dickson

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Compliance officers

Two roles for the rulebook wardens

AT THE beginning of the year, a small group of men met at the top of the Stock Exchange tower to talk about the way that regulation of a dual capacity stock market would affect their firms. By the autumn, their numbers had grown to nearly 60, and the Council meeting room was the only one big enough to take them.

These are the City's new compliance officers. Originally a small band of senior stockbroking partners and directors from the merchant banks which were taking them over, they discussed conflicts of interest and Chinese walls.

Now there are Europeans and Americans among them, and full-time compliance officers with a practical brief. Some are members of staff who have been given new duties; some are practising surveillance people taken from the exchange. Many recruits are accountants or lawyers. For most of them the work is turning out to be more complicated than they at first imagined.

Their job is to see—under the terms of the Financial Services Bill, and the complex network of regulating agencies which it spawned—that the people they work with are not only aware of old and new rules, but that they comply with them. There are two types, according to Richard Sadleir, the director who runs a one-man central compliance department at Schroder Wagg. "One is dealing with conflicts of interest, which is how the job was originally conceived, the other with accountancy-type monitoring."

Setting up a compliance department to strengthen existing self-discipline has been a piecemeal process. Those who thought they would have to draft client agreement letters by this month now have more time in hand. They are still drawing together batches of draft, revised and final rules from the Securities and Investment Board and the self-regulatory organisations (SROs) which will have to be joined; and during the summer there were a series of amendments and several reprints of the Bill to absorb. SRO compliance manuals are yet to come: the Stock Exchange will be bringing out its manual early next year.

Such a body of rules is not easily digestible, and compliance officers want to see them in final form before writing their own in-house manuals. Many, if they do not already do so, plan to write compliance with in-house rules into employment contracts, so that ignorance will no longer be an excuse. "What has changed," said Kenneth Morton, who returns to Hill Samuel to organise group compliance after a spell as finance director at Reed International, "is the view that it can all be left to judgment, without a set of rules." The group has detailed someone at each subsidiary to take responsibility for compliance, and planned to take on only one full-time compliance officer, to cover merchant banking and broking.

At Morgan Grenfell, the appropriately named George Law, returning also to an earlier employer, but from solicitors Slaughter & May, has now set up a central compliance department with a staff of eight. At Morgan Grenfell Securities, director George Nissen looks ahead to using technology to monitor deals. "We already have monitors of the internal dealing systems in the compliance department. Ideally, you would need feeds of all computer information into compliance." The feeling is that monitoring will become easier as a wider range of instruments become quoted, and then traded, on screens.

Like so many new ideas being brought into the City, the compliance department is an import from the United States. There, with a statutory system of regulation which brings arbitration and litigation in its train, large departments are well-staffed by lawyers. Compliance officers are squeezed from below by the deal-makers who want to know how far they can bend the rules, and from above by the exchanges and by enforcement officers at the SEC. By September Merrill Lynch, Goldman Sachs and Salomon Brothers had all brought compliance officers over from New York, or started to recruit in London.

Fraud can still slip past a compliance department. Although Drexel Burnham asks employees to disclose outside interests, its 40-strong New York compliance team could not have traced the Bahamas-routed arbitrage deals which made employee Dennis Levine $12.6m, said John Hannigan, Drexel's compliance officer in London.

But this was not customers' money, and the main concern of compliance officers is to protect non-professional investors. For the clearing banks, customers who come into the branch for investment or life insurance advice come into this category. Midland, one of the clearers with an investment banking subsidiary, recognised the scale of its new duties last year. It decided not to have a central compliance officer, but to recruit one to work with a committee in each of its four divisions—retail, corporate, international and investment banking.

Bank staff advise customers on a wide range of investments, and the branches have their own products to sell. "We're going to have to produce very firm guidelines and manuals for every branch," said Midland's group secretary (and compliance chief) John Skae. The clearers plan to sell shares through their branches, too; and Barclays says it will resolve conflicts of interest with its BZW market-making subsidiary by using computer links to search SEAQ for the best price and asking BZW to match the quote.

For the small investment firm, compliance officers may have to be bought in from time to time, and accountancy firms are offering their services. For the large conglomerates their ways of solving conflicts of interest that have not yet been set out in practical detail. Compliance officers are too busy to set up their own professional association, but the meetings are certain to carry on.

Rosamund McDougall

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Lazard Brothers & Co., Limited
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Lazard Brothers jointly underwrote
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Cap Gemini Sogeti

Lazard Frères et Cie
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The merger with Isro

Gains in efficiency but monopoly risk

TO THE optimists, the merger of the London Stock Exchange with the International Securities Regulatory Organisation (Isro), confirmed last month, represents a triumph for a centralised liquid market in UK securities over the forces which have threatened fragmentation during the last three years.

To the pessimists, the merger marks the takeover of the exchange by the large foreign, particularly US and Japanese, financial conglomerates, and seals the fate of the small jobbing and broking firms that have traditionally made up the exchange's membership.

There are large elements of both truth and exaggeration in the two versions of history. The optimistic version is correct insofar as, under the new framework, common regulatory and investor protection standards will be applied to all forms of securities trading to a greater extent than at any time since the beginnings of the Eurobond market in London in the mid-1960s.

The market practitioners will also benefit from the centralised price information, surveillance and settlement systems that are available to Stock Exchange members. Particularly once the plans for making greater use of computer technology in these areas have been fully realised, the benefits will appear in the form of lower dealing costs and possibly greater liquidity.

However, many of these benefits would have occurred even without a merger. Minimum standards of investor protection will, in any case, be required by the Financial Services Bill, now in the final stages of its Parliamentary passage, and by the rules of the Securities and Investments Board, the City regulatory overseer. It will have to authorise the International Stock Exchange of the United Kingdom and the Republic of Ireland, as the newly-merged body is to be officially called, as a self-regulating organisation (SRO). It will also authorise its recognised investment exchanges (RIEs).

The merger will remove the anomalies and differences of detail that have appeared in the draft rule-books that were published two months ago by each of the two organisations before the merger negotiations were successfully concluded. It will thus simplify the task of the compliance officers, lawyers and a few practitioners in those larger securities houses whose activities spanned both the Stock Exchange and Isro. And by developing a common body of case law, the new Stock Exchange may make life a little easier for the investor who has a grievance.

But it is the existence of the SIB and its rules that will end the most important gaps and anomalies in the regulation of the UK securities markets, in particular the weakness of controls over licensed dealers outside the Stock Exchange and the unfettered laissez-faire regime enjoyed by the Eurobond and the emerging international equity markets.

The case for a merged settlement, surveillance and price information service rests largely on the supposed economies of scale that will result.

But two competing exchanges, the traditional Stock Exchange and another exchange for the most widely-traded international securities, could doubtless have forged suitable links between their different systems, particularly with the advances of micro-processing technology. And the danger that two exchanges would have led to a loss of liquidity and to pricing anomalies in the stocks quoted on both could have been minimised by making it easy for dealers to arbitrage and lay-off risks between the two competing markets.

That is the basis of the successfully managed competition between the three main securities markets in the US, the New York and American stock exchanges and the National Association of Securities Dealers, as well as the competing futures and options markets in New York and Chicago.

> **Common regulatory and investor protection standards will be applied to all forms of securities trading to a greater extent than at any time since the beginnings of the Eurobond market in London in the mid 1960s.**

Two benefits of the competition between exchanges in the US are the promotion of technological change and the fostering of a higher quality of service to the listed companies that are their clients. The risks of the Isro-Stock Exchange merger are that it will give little continued incentive for the Stock Exchange "civil service" to improve its standards of service. More important, there is a danger that, slowly, a variety of restrictive practices will re-emerge, albeit more subtle than the ones which led to the legal challenge from the Office of Fair Trading between 1976 and 1983.

It was, after all, the emergence of competition to the London Stock Exchange, from the Eurobond markets, and from the US securities markets in the form of American Depositary Receipts used to trade UK equities, that provided possibly as important a spur to reform as the looming OFT court case.

Nevertheless, some of the competition from the trans-Atlantic exchanges will continue. What the traditionalists fear is that the new Stock Exchange will become so dominated by the giant international securities firms that its character will disappear. According to the most pessimistic scenario, the Stock Exchange will become just part of an offshore financial centre, paying almost as little attention to local industry and investors as do the large financial institutions in Caribbean tax havens.

By far the largest activity under the regulatory ambit of the new exchange will be the Eurobond market, whose market capitalisation of $500bn and annual turnover of more than $2,000bn overshadows the UK equity and government securities markets. However, the Eurobond market will be kept apart from the exchange's traditional activities. A separate RIE for the market is to be set up by the Swiss-based Association of International Bond Dealers, which will thus be controlled entirely by Isro members.

The most conspicuous element of the merger will be at the level of the self-regulating organisation whose governing body is to have 25 members, comprising nine practitioners from the existing Stock Exchange Council, nine from Isro's steering committee, three independent lay members appointed by each of the two current bodies and a chairman.

The precise dividing line of responsibilities between the merged SRO and the two separate RIEs, a distinction first made and insisted on by the Securities and Investment Board, has yet to be defined. But the bulk of administrative and regulatory responsibility is likely to be accorded to the RIEs. The main effect of the merger will therefore be in the rapidly expanding international and "Euro" equity markets, in which both Stock Exchange members and the foreign-owned securities houses that are members of Isro participate. The council of the RIE that is to cover both domestic and international equities will have half its members appointed by the Stock Exchange and half by Isro.

Thus the influence of the Isro members on the running of the new securities markets will be substantial, although many of those members are also Stock Exchange members and have subsidiaries which were formerly brokers and jobbers. It is likely that the majority of members of the governing committees of both the RIE and SRO will be former partners of the traditional Stock Exchange firms.

The opposition to the reform that will be required to the Stock Exchange's constitution has been weakened by the compensation package that has been worked out by the Stock Exchange council. This will give each voting member equal compensation for agreeing to a dilution of his control. The compensation level, is, however, well below the net asset value of the Stock Exchange which, after taking into account the mortgaged Stock Exchange tower, is worth nearly £20,000 per member.

Nevertheless, the compensation package is expected to be approved at the meeting of members called for next month.

Clive Wolman

The new status

Diluted authority in the shade of the SIB

THE CHAIRMAN of the London Stock Exchange has always been one of the great panjandrums of the City establishment, ranking only a little behind the Governor of the Bank of England on the great State occasions.

The ruling council which he chaired has had sweeping powers over exchange members, whose main business interests have been confined to the stock market.

Power has been in the hands of individual members, rather than of their firms, and business practice has been built around the principle of unlimited liability. The Exchange has written its own rules, and although lawyers have started to appear at its disciplinary proceedings, it has retained powers to dish out rough justice to its members.

All this is about to change.

In the new order, the Stock Exchange will come directly under the jurisdiction of a more powerful agency, the Securities and Investments Board, which in the last resort will have powers to change the Exchange's rules.

The Stock Exchange itself will no longer be an integrated body, combining the job of a regulatory agency with that of an investment exchange under a single ruling council. These functions will be split apart, with two separate governing councils and (possibly) two separate chairmen. This will further dilute the authority of the Exchange as an institution.

The character of the marketplace itself will also change radically. Its doors are being thrown open to many of the world's biggest securities firms, which will regard the London market as only a relatively minor part of their business. It will not be a matter of life or death to them whether the Exchange manages to retain its position vis à vis other markets, since these giant firms will already be active in the rival centres anyway.

Responsibility for the day-to-day working of the market place will be delegated to separate committees, which will be drawn mainly from the practitioners and will have a lot more autonomy than under the present system. This was a condition of the international securities firms' agreement to join the Stock Exchange as a place for trading international equities. They were determined not to run the risk that some bureaucrat would start telling them how to conduct their business.

Under the merger proposals, the ruling council of the Exchange will be cut back from over 50 members to a more manageable 31—of whom 15 will be appointed by the international securities firms. And the new rules are being written on the assumption that they will have to withstand much more determined legal challenges than has ever been the case in the past.

Moreover, the Stock Exchange will play a much less central role in the lives of market practioners, thanks to the nature of the new trading system. Trades in equities will not have to cross the floor of the Exchange, as they do on the New York Stock Exchange or as they used to in London. Instead, the main responsibility of the central institution will be to operate efficient disclosure, surveillance and transaction systems. Trade in gilt-edged securities will leave the floor of the Stock Exchange altogether.

To draw a parallel with the US, the Stock Exchange will, in terms of public perception, probably become rather like the National Association of Securities Dealers. This runs a highly successful and efficient system but, in terms of prestige within the financial establishment, it still ranks behind the more traditional New York Stock Exchange.

The position of individual members is also changing considerably. In order to bring in the big international firms, the Exchange is having to ask its members to agree that voting power should pass from the hands of individuals into those of member firms. Although there will be limits to the number of votes a single firm can exercise, this will inevitably bring a marked shift in the power structure of the Exchange. It will also bring an end to the princple of unlimited liability.

Entry qualification has already been changed. May of this year saw the last of the old-style entry exams, under which new members had to pass exams covering the main aspects of their job—Stock Exchange practice; interpretation of reports and accounts: taxation: and investment advice.

Under the new system, anyone who wishes to start giving investment advice will have to become a registered representative with the Exchange, and pass a three-hour test. There will eventually be separate registers for traders, option traders, money brokers and inter dealer brokers.

Not unnaturally, many people bitterly regret these changes in the character and status of the Stock Exchange. The motto may still be "My Word is my Bond," but several firms have taken to tape-recording all telephone conversations, just to be on the safe side.

The marketplace is bound to become more legalistic in character, and people will be less willing to act by the spirit, rather than just by the letter of the rules. As members of diversified conglomerates, firms will have to weigh the interests of the Exchange as an institution against the objectives of other parts of their business.

However, it does not follow that a decline in business standards is inevitable. To take one small example: under the old system, school or university leavers could—and did—find themselves advising clients on investments within days of joining their firm. Under the new regime, they will have to have been with the firm for three months and have passed a test before they can be let loose.

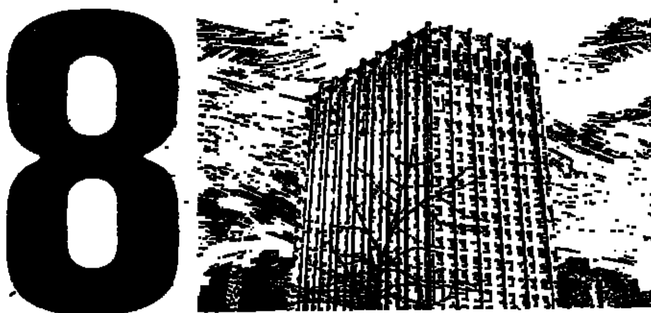
The Stock Exchange will have a complete register of all practitioners, which will be much broader than its present list of members, and it will be able to track them as they move from firm to firm. More generally, the Exchange will be accountable to a wider constituency than has been the case in the past.

All the changes are the consequence of the efforts which have been made to maintain a central British market in securities.

The Stock Exchange could have kept to its old ways, in which case its business would increasingly have drifted away to other markets. Or it could have tried to bring in the newcomers while maintaining its old club rules. The results of either course of action would, in the long run, have been a lot more uncomfortable than the route which has now been chosen.

Richard Lambert

8



THE STOCK EXCHANGE

Big Bang has enormous implications for the Stock Exchange as an institution. It is transforming its membership structure to allow major corporate members to have voices on its ruling Council, and it is proposing to merge with the international dealers' body, Isro.

SPLINTERS

- The expression "bear," in its stock market context, is believed to have come from the 17th century proberb: "You must not sell the skin until you have shot the bear."
- The City accounts for one in six of the UK's international telephone calls.

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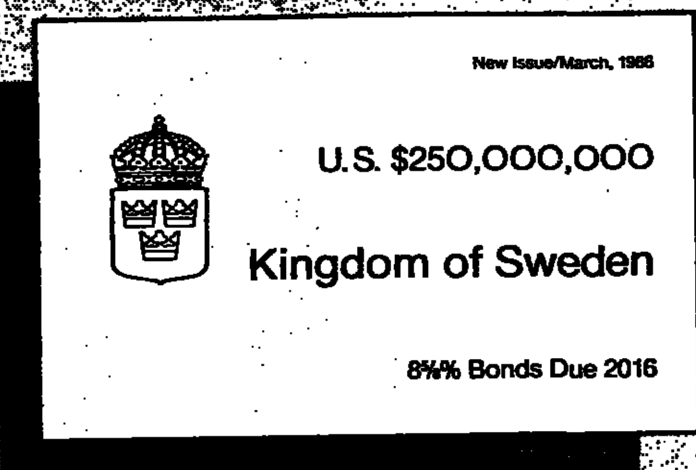
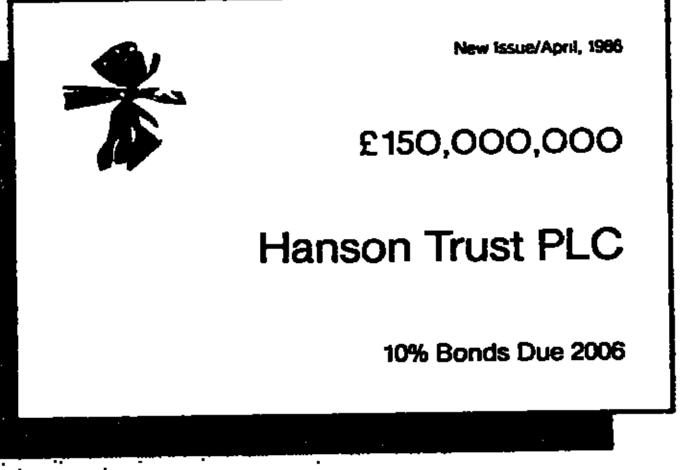
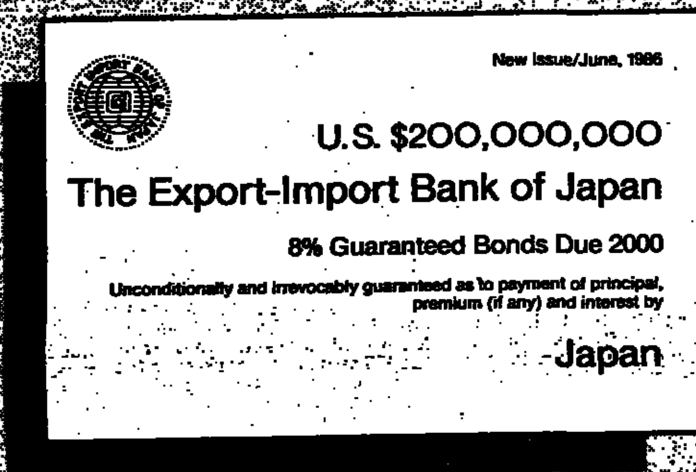


New Issues/March, 1986
DM 1,435,280,000
Euro-DM Securities Limited
St. Helier, Island of Jersey, Channel Islands
Zero-Coupon Deutsche Mark Bonds
secured on a Schuldschein issued by
Deutsche Bundespost
(The German Federal Post Office)

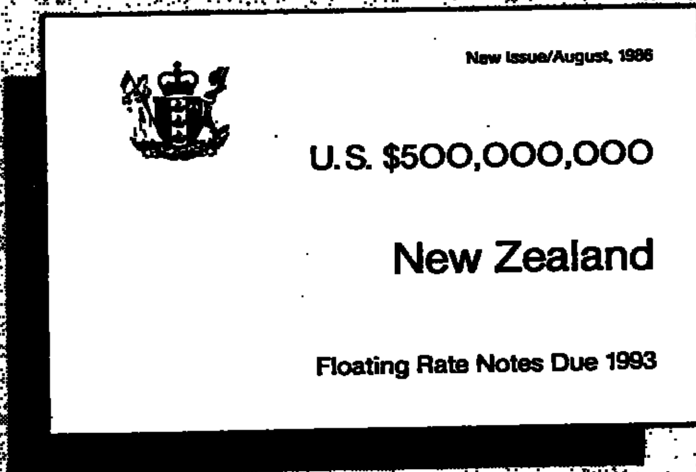




New Issue/June, 1986
A$150,000,000
IBM Australia Credit Limited
(Incorporated with limited liability in the State of New South Wales)
12½% Notes Due June 4, 1989
(Payable in U.S. Dollars)

New Issue/July, 1986
U.S. $300,000,000
Eastman Kodak Company
6⅜% Convertible Subordinated Debentures Due 2001

New Issue/July, 1986
U.S. $100,000,000
Hill Samuel Group Plc
Floating Rate Notes Due 2016



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The Trading Floor

Face-to-face encounters give way to electronic pulses

THERE IS no better method of trading than face to face, say the market makers and brokers on the floor of the Stock Exchange. But with the changes arising from Big Bang it will become quite a luxury to be able to look the other trader in the eye. For the most part, electronic pulses and optical cables will have taken over the role of communication.

From today, the vast bulk of the business of the Stock Exchange is expected to be conducted over the telephone by brokers, on the basis of quotes entered by market makers on the Stock Exchange Automated Quotations (SEAQ) screen system.

The market makers will mostly be operating "upstairs" in high-tech trading rooms anywhere in the City of London (and sometimes beyond). Yet the traditional trading floor will not be shut. Far from it: to begin with, at least, there are more market makers' pitches squeezed into the space than ever before.

Over the past year or so, the Stock Exchange has embarked on a £3m programme to increase the floor's capacity from 193 trading pitches to 224 and install the very latest communications technology.

One of the long established jobbing firms, Smith New Court, intends to retain a major floor presence, with as many as 50 traders in UK equities.

"The system will not change overnight. There will still be a big business on the floor," says Mr Geoffrey Lederman, of Smith. "You can do four or five more times the number of trades on the floor than you can in the office."

And several newcomers are keen to show their faces. The US investment bank Drexel Burnham Lambert, for instance, is making markets in equities on the trading floor. "A presence on the floor will be very important, because we want to be visible," says Drexel's Mr Roger Jospé, head of European operations. He thinks that pitches on the floor will demonstrate more commitment than screens alone.

On the other hand, most of the leading established market makers, such as Wedd Durlacher, now part of Barclays de Zoete Wedd, are drastically reducing the number of people posted on the floor. And some of the newer second-line or specialist market makers, such as Cazenove, will not be on the floor at all.

So, on the face of it, there are some sharply differing views on the trading floor's future significance. On closer analysis, however, most people probably accept that the floor's role will fade fairly quickly.

The disagreements are largely about a transitional period over the next year or two. For example, there are fears that the telephone system installed by stock market firms may not work properly.

If the phones are jammed, the floor will be a useful fall-back area for low-tech trading, and consequently many market making firms are hedging their bets. Some expect that the flotation of British Gas, first dealings in which are scheduled for December, will severely test the Stock Exchange's new systems.

In particular, smaller broking firms fear that they will not easily be able to get through to the market makers' trading rooms at busy times.

This is because they believe that the traders will much prefer to respond to a flashing light on their screen corresponding to a top institutional broker, with the prospect of a big order, than to talk to a small provincial firm. So a good deal of the retail business will continue to be carried out through floor trading.

But even some of this small-order business will, in due course, be lost to the floor, because the Stock Exchange is planning to start a computerised small bargain system next October, called SAEF (SEAQ—Automated Execution Facility).

This will be cheap and efficient for small orders. All the same, at the outset SAEF will cover only the top stocks—known as alpha securities—leaving the slightly less liquid betas and the third-line gammas to continue on the trading floor.

Only time will tell how much trading will continue to be done on the floor. There are some optimists, like Smith New Court's Geoffrey Lederman, who believes that the appeal of traditional face-to-face trading will ensure that even some of the institutional size trading stays on the floor.

But the Stock Exchange could put pressure on the floor by insisting that the market makers and brokers who use it must pay its full expenses. Until now the cost of the trading floor has been an overhead to be borne by the market as a whole. But the post-Big Bang approach will be that those who trade over SEAQ and the telephone should not have to pay for another trading facility—the floor—which they do not use.

Brokers who wish to gain access to the floor may have to pay something like £500 annually for a special licence, the exact amount depending on how many apply (the more the cheaper). Market makers face a special one-off charge of £3,750 (payable over three years) for each of the modernised pitches, together with an annual rental of more than £2,000.

Realistically, it appears likely that the major trading in the Stock Exchange's leading 60 or so alpha grade equities will take place upstairs. But there is scope for the floor to carve out a good trade in beta and gamma securities, where liquidity is less good and bargains tend to be smaller. Some retail business in gilt-edged securities is also expected to be handled on the floor.

In the longer term, however, it could well be that direct trading of securities on the floor could fade away, and the dominant activity may well become options trading, which is already a significant activity and is likely to expand fast because the new equity and gilt-edged market makers will want to hedge their positions.

Options trading remains an open out-cry market, needing a trading floor, and there appears no prospect that it could disappear on to screens. And there are suggestions that space might one day be made available to the financial futures market, Liffe, despite the occasionally awkward relations between the two exchanges. Liffe at present operates separately across the road in the Royal Exchange, and is also expanding rapidly.

At any rate, stories that the trading floor might be turned into a skating rink or a dance hall are definitely premature.

Barry Riley

The new Stock Exchange specialist firms

Compiled by the FT editorial research department

Stock Exchange gilt-edged market makers

Firm	Parent	Coverage/objectives	Trading positions
Aitken Campbell (Gilts)	Union Discount	The firm will continue to service the small end of the market with the emphasis on Scottish and provincial agency brokers. The longer term objective will be a gradual expansion of the firm.	NA
Alexanders Laing & Cruickshank Gilts	Mercantile House Holdings	The initial coverage will be of UK and international institutional clients. No plans at present for private client business. The main objective is to grow into one of the largest of the new primary dealers over a five-year period. When rules permit, intention is to amalgamate the associated discount house with the market maker, to create a full-range sterling dealing operation.	22 (8 trading positions and 14 sales positions).
B.T. Gilts	Bankers Trust Company, New York	Will trade all gilt-edged securities. Wants to establish itself as "first division" market makers. Continuous dealing facility in good market size, supported by analytical team and working with BT dealers in other products.	5/6
Barclays de Zoete Wedd Gilts	Barclays Bank	Responsible for market making, sales and research in gilts and sterling short-term instruments, and for the management of market making, sales and research in fixed interest securities and bulldog.	NA
Baring Wilson & Watford	Baring Brothers	Authorised market maker in gilt-edged stocks, and also in non gilt-edged fixed interest stocks, with particular emphasis on sterling bulldog issues.	9 dealers and 12 sales positions (may well increase further, particularly in the area of sales).
CSMB Gilts*	Credit Suisse First Boston	NA	NA
James Capel Gilts	The Hongkong and Shanghai Banking Corporation	The intention is to provide a comprehensive advisory and execution service to domestic and international clients. Market making in full range of gilts and selected bulldog and debentures.	Total trading positions: 16. Four of these will be based on the floor of the Stock Exchange.
Cater Allen* Securities Ltd.	Cater Allen	Expects to concentrate on short end of gilts market. Market making in gilt-edged securities.	4 dealers and 4 sales positions.
Chase Manhattan* Securities	Chase Manhattan	Gilt-edged market maker.	NA
County Natwest Gilt-Edged Securities.	National Westminster Bank	Committed to being a long term active participant in all aspects of the gilt-edged market. Will work closely with County Capital Markets to provide a service to clients in international bonds as well as gilts, and will continue its specialisation in index-linked stocks.	35 dealing positions; 24 gilt-edged market; 2 gilt futures and options trades; 9 other sterling fixed interest stocks.
Gerrard and National Securities	Gerrard and National Holdings	Will be making a market in full range of maturities of gilt-edged stock, including low coupons and index-linked.	10
Goldman Sachs Government Securities (UK)	Goldman Sachs & Co.	Whole range of securities, corporate, money markets, gilts.	NA
Greenwell Montagu Gilt-Edged	Midland Bank	To deal as principal in gilt-edged securities, bulldogs, futures and options, with institutional clients and other market makers, as one of the group of primary dealers. To provide economic and research advice in relation to this market. To provide similar services in sterling money market securities.	20
Hill Samuel Wood Mackenzie (Sterling Debt)	Hill Samuel	Gilt-edged market maker, will concentrate on UK equity sales and less on international sales.	17
Hoare Govett Sterling Bonds	Security Pacific	To continue to provide a complete dealing and research service to all major retail clients.	35
Kleinwort Grieveson Charlesworth*	Kleinwort, Benson, Lonsdale	NA	38
Lloyds Merchant Bank (Government Bonds)*	Lloyds Bank	NA	31
Merrill Lynch Government Securities	Merrill Lynch	Will deal as principals along the whole maturity spectrum of sterling debt instruments and related futures and options products. Will provide a service to institutional clients in the above securities and enable clients to trade with Merrill Lynch in all major debt markets of the world.	15, excluding salesmen
Messel Gilts	American Express/ Shearson Lehman	Intends to be one of the leading market makers and distributors of gilts. In addition to existing coverage, Messel will be building on the world-wide reputation and contacts of the Shearson Lehman/American Express organisation.	30
Morgan Grenfell Government Securities	Morgan Grenfell Group	Primary dealer in gilt-edged stocks, offering a comprehensive market-making and institutional sales service. Dual capacity trading in corporate sterling debt and bulldogs.	15 market-makers, 12 sales & research.
Morgan Guaranty Sterling Securities	J.P. Morgan	Aside from undertaking the obligations agreed with the Bank of England, MGSS intends to provide a customer-oriented service for both domestic and international institutions. This means offering ideas and presenting opportunities that are designed to enhance the overall investment performance of major investors in gilt-edged stock.	20
Phillips & Drew Moulsdale	Union Bank of Switzerland	To cover all gilt-edged securities.	24
PBC Gilts*	Prudential Bache	To make markets primarily in transaction driven dealing.	30 approx.
RBC Gilts	Orion Royal Bank	Intends to offer customers economic analysis, technical analysis, client contact and settlements (totally computerised real-time system).	18
Salomon Brothers (UK)	Salomon Brothers	Intends to cover institutional clients on a world-wide basis and to integrate its gilt-edged operations into its global bond market strategy.	12
Scrimgeour Vickers*	Citicorp Investment Bank	NA	70 approx.
Warburg Securities Gilts*	Mercury International Group	Primary dealer in the gilt-edged market, will concentrate on international sales.	24 market makers, 32 salesmen, 4 analysts.

*Did not reply to our questionnaire. Information taken from our files.

Stock Exchange money brokers

Firm	Parent	Coverage/objectives	Trading positions
James Capel Money Broking	The Hongkong & Shanghai Banking Corporation	Endeavouring to cover all market makers, in gilt-edged and equity securities, who are members of the Stock Exchange, in order to lend them stock and money.	NA
Cazenove Money Brokers	Partnership of Cazenove & Co.	The firm lends gilt-edged stock and money to gilt edged market makers; and equities, overseas stock and bulldog bonds to other recognised Stock Exchange market makers. Also money management for clients of Cazenove.	NA
Hoare Govett (Moneybroking)	Security Pacific	Stock lending—gilt-edged stock, corporations & equities.	NA
King & Shaxson Money Brokers	King & Shaxson Holdings	To enable market makers to settle their outstanding bargains either by borrowing stock from institutions for on-lending to cover bear positions, or by the provision of money borrowed from the banking system to finance market makers' bull positions.	NA
Lazard Money Broking	Lazard Brothers	The principal role of Lazard Money Broking is to provide liquidity. Stock loans may be arranged in gilt-edged securities, UK or foreign equity stocks, as well as in a wide range of fixed and variable rate bonds, in both sterling and international currencies.	NA
? M (Moneybrokers)	Exco International	1 To provide liquidity to the gilt-edged market by lending stock to the gilt-edged market makers, enabling them to effect "short" sales and to settle sales when the stock has not been delivered. 2 To provide borrowed funds to enable the gilt-edged market makers to finance their "bull" positions. Or: 3 The placement of surplus funds arising from the gilt-edged market makers "bear" positions. 4 To provide a similar service as described above in other fixed interest markets and also in the equity market.	NA
P-B Securities Money Brokers	Prudential Bache Securities, which is itself a subsidiary of the Prudential Insurance Company of America	1 Provision of a stock lending service to UK market makers in non-UK securities, particularly: US, Australia, Canada, Europe, Japan, Hong Kong and Singapore. 2 The company is licensed by the Bank of England to operate as a registered Stock Exchange money broker, and currently offers a complete stock-lending service in the UK gilt-edged and bulldog markets, and will offer a full service in UK equities.	NA
Rowe & Pitman Money Broking	Mercury Internatonal Group	The principal activity is the provision of stock borrowing facilities in gilt-edged stock, and also equities to the market makers. In addition to stock, Rowe & Pitman also lends and takes money loans from them.	NA
Sheppards Moneybrokers	BAII Holding	The company lends stock and money to Stock Exchange market makers in gilts, equities, and overseas markets. It borrows stock from approved institutions, and money from the banking system.	NA

Stock Exchange equity market makers

Firm	Parent	Coverage/objectives	Trading positions
Aitken Campbell	Union Discount	The firm will deal in nearly all alpha stocks and a selection of popular beta and gamma stocks. The aim of the firm is to make a market for all Scottish stocks, and to contribute to the marketing of Scottish third market stocks.	5
Alexanders Laing & Cruickshank Institutional Equities*	Mercantile House Holdings	Covers 500 stocks in the following sectors: financials, capital goods, retail, chemicals, pharmaceuticals, oils, industrial, holding companies, paper & packaging, investment trusts, mining, textiles.	21, plus 35 salesmen
Barclays de Zoete Wedd Securities	Barclays Bank	Responsible for market making, sales and research in UK and international equities.	200 approx.
Capel-Cure Myers	ANZ Merchant Bank	In process of finalising arrangements—information not available.	NA
Cazenove Securities*	Cazenove & Co	NA	NA
Chase Manhattan Securities*	Chase Manhattan	Based on Simon & Coates. Covers about 75 per cent of UK equities.	NA
County Securities	National Westminster Bank	International broker/dealer providing research, sales, market-making and dealing in UK, US, European, Japanese, Hong Kong, South-east Asian and Australian securities	388
Deltec Securities (UK)	Deltec Panamerica	Will specialise as a market maker in the smaller capitalised companies and UK investment trusts. The objective is to utilise the skills in market-making gained in one particular sector of Eurobond market.	2, plus small research team
Drexel Burnham Lambert Equities	Drexel Burnham Lambert Group	Firm intends initially to be a market maker in UK stocks for worldwide customers, as well as developing a significant broker/dealer business through analysis and sales. Will continue to trade in international equities outside the Stock Exchange.	4
FHF Market Makers*	Hawley Group	NA	NA
Goldman Sachs Securities*	Goldman Sachs & Co	Makes market in approx. 60 stocks (ADRs). Plans increase.	NA
Grenwell Montagu & Co Securities	Midland Bank	To provide investment advisory and execution services in UK and international equities to institutional clients dealing as principal, in stocks in which is registered market maker; or, alternatively, act as a broker dealer. To provide comprehensive service across all major UK sectors and European markets.	40
Hitchens Harrison*	NA	NA	NA
Hoare Govett Market Makers (shortly to be renamed Hoare Govett Securities)	Security Pacific	At present provides market-making services in a wide range of UK securities as well as several international stocks. This service will be expanded to cover all market sectors in the near future, with particular emphasis on companies to whom it acts as official broker.	35
Jackobson Townsley	Independent	Investment trusts.	3
S. Jenkins*	NA	NA	NA
Kitcat & Aitken	Orion Royal Bank	Will be market making in the following sectors: leisure, shipping and transport, insurance brokers, miscellaneous.	20
Kleinwort Grieveson	Kleinwort, Benson, Lonsdale	Will trade in all alpha stocks, a good number of betas and gammas, plus stocks of all companies for which the house acts, provided the company wishes.	30-40
R.A. McLean*	NA	NA	NA
Merrill Lynch	Merrill Lynch	Equity market making in the following sectors: building materials, electronics, mechanical engineering, motors, tobaccos, food manufacturing, health and household products, textiles, chemicals, office equipment, miscellaneous, oils, overseas traders, stores.	18
L. Messel*	American Express/ Shearson Lehman	Will make markets in all sectors irrespective of research strength. Back-up research in stores, newspapers, brewers, electronics, international mining.	NA
Morgan Grenfell Securities	Morgan Grenfell Group	Broking and market-making in a wide range of UK equities, and traded options. Corporate broking activities.	Sales, research & dealing 60, Market-making 52, Traded options 11
Philips & Drew Trading*	Union Bank of Switzerland	Intends to cover all alpha and beta stocks. It already deals in two-thirds of All-share index by market capitalisation. Wants to have waterfront approach to market making which reflects waterfront coverage of equity sales and research. Will be full service broker.	200 approx.
Harold Rattle*	NA	NA	NA
Riada*	NA	NA	NA
Robert Fleming Securities	Robert Fleming Holdings	The UK part of the operation covers trading, research and sales in three sectors: electronics, pharmaceuticals/chemicals and industrial holding companies. A trading service only at present in food-related products. Will continue to emphasise those areas which best utilise the international resources available through Jardine Fleming, in Japan and Hong Kong, and Eberstadt Fleming in New York.	Equity operation, 65 trading positions
Savory Milln	The Royal Trust Company of Canada	Prime objective is to provide a high quality research and dealing service. Specialist strengths are coverage of European markets and certain sectors of the UK market, chiefly building and construction, financials, engineering and electricals. Market-making activities will be broadly aligned with this, and initially will make markets in building and construction and financial stocks as well as present wide range of European shares. Intends, additionally, to run a UK "leaders" book.	Total staff 303. Of these: 150 main equity dealing room, including 35 equity traders in UK and European securities
Schroder Securities*	Schroders	Research covers brewers and distillers, electronics, telecoms, engineering, food manufacturing and retailing, oils, mining. Will be making markets in the food sector, plus some betas and gammas where there is a corporate link with Schroders.	5/6 market makers plus 16 UK equity salesmen and 17 analysts
Scrimgeour Vickers (Traders)	Citicorp	At present, covers five market sectors and will aim for further coverage.	25
Smith New Court	Smith New Court	Market maker in UK equities. South African mining, Australian and Hong Kong stocks and related currencies also traded, and conventional options. Objective is to provide an independent and competitive market in all these areas.	15
Stock Beech (Market Makers)	British & Commonwealth Shipping	To provide a market-making service in the shares of smaller companies, mainly located in the west country. Also in media stocks, particularly relating to advertising, commercial television and newspapers and publishing.	2
Strauss Turnbull*	NA	NA	NA
Warburg Securities (corporate name S. G. Warburg, Akroyd, Rowe and Pitman, Mullens Securities)	Mercury International Group	Will be covering all the major UK equity markets as well as a large number of securities in the US, Europe, the Far East and Australia. The objective of the firm is therefore to provide a worldwide coverage of all the major markets.	70 in the 30 overseas
White & Cheesman*	Guinness Mahon	NA	NA
Wood Street Securities*	Hill Samuel	Currently covers about 250 stocks, of which 180 are investment trusts, and the rest leaders in chemicals, pharmaceuticals, insurance and oils. Research covers some 300 stocks in food, tobacco, technology, wines and spirits, leisure, health and household, stores, food retail, oils, investment trusts, insurance companies, banks.	30 research analysts, 20 market makers, 40 salesmen

*Did not reply to our questionnaire. Information taken from our files.

Stock Exchange gilt-edged inter-dealer brokers

Firm	Parent	Coverage/objectives	Trading positions
Williams, Cooke, Lott, Kissack	Exco International	Set up to trade in gilt-edged. Examining other options but does not plan to move into UK equities at the moment. To utilise contacts of directors and staff in the gilt-edged securities; to provide efficient inter-dealer broking service in the new gilt-edged market.	24 (20 on Oct. 27)
Charles Fulton (IDB)	International City Holdings	As a wholesale broker in financial markets around the world, ICH feels it is particularly suited, through Charles Fulton, to provide screen-based IDB service in London.	34
Fundamental and Marshall Brokers	Mercantile House Holdings	To provide an inter-dealer broking service to all the gilt-edged market makers, except Alexander Laing and Cruickshank (also part of the Mercantile House Group) in gilt-edged and other related instruments	20 approx
Garban Gilts	MAI (formerly Mills and Allen)	To offer a screen service to the 27 market makers which will facilitate their trading in Government stocks.	22 dealers 5 support staff
Mabon Nugent Gilts	Mabon Nugent (New York partnership)	NA (not prepared to disclose)	NA (not prepared to disclose)
Tulett and Tokyo (Gilts)	Tulett and Tokyo Forex International	To provide an anonymous screen-based dealing system for the recognised market makers in the restructured gilt-edged market.	16 initially

Stock Exchange clearing member firms

Firm	Parent	Coverage/objectives	Trading positions
Broker Services	Barclays Bank 51%; NMW Computers 49%	1. To allow brokers to operate as competitive players in the market. 2. To provide brokers with access to a range of investment related products, to keep them competitive with firms now part of large financial conglomerates. 3. To allow brokers to convert the fixed costs of non-profit orientated departments into variable costs within profit centres	NA
Financial Clearing and Services (UK)	Hoare Govett-Security Pacific	1. Hoare Govett trades will be settled through FICS. 2. Improvement in on-line information for Hoare Govett staff on 24-hours-a-day basis.	NA

Research; Jan Schling

Conduct of Business Rules

Regulations will be tightened up

THE NEW Stock Exchange rule-book which comes into effect from today has been made necessary both by the Big Bang reforms and by the new City regulatory structure proposed in the Financial Services Bill, now in the final stages of its parliamentary passage.

The new rules will not be given much of a chance to acquire respect by force of their longevity. Large sections will have to be rewritten when details of the merger agreement with the International Securities Regulatory Organisation (Isro) have been worked out. Isro put down a marker last month, only a week before its outline merger agreement with the Stock Exchange was announced, by publishing its own independent set of draft rules.

The differences between the two sets of rules are largely a matter of form rather than substance. Both sides insist that there are no major outstanding differences of principle between them. However, the draft Isro rules have been written in a more legalistic and precise way, which is in line with the trend towards a more litigious approach to disputes that many expect to accelerate after Big Bang. The prose of the Stock Exchange rules is simpler and more accessible to the layman.

However, the basic principles behind the Isro rules—that there should be no barriers to competition and firms should be free to deal as principals or agents provided there is full disclosure—have already been incorporated in the Stock Exchange's new rules.

The other constraint on the rules is that imposed by the Financial Services Bill, scheduled to become law next month and to take full effect some time in the second half of next year. Many of the concepts in the Stock Exchange rule book are similar to those that appear in the draft rules of the Securities and Investments Board (SIB). This is the embryonic City regulatory body, to be given the power under the Financial Services Bill to lay down minimum standards of investor protection.

All the self-regulating organisations (SROs) being set up under the Bill, including the Stock Exchange, will have to be authorised by the SIB. One condition for authorisation is that the SRO's rule book must offer "equivalent" standards of protection to the rules of the SIB. For that reason, the rule-books of many SROs are likely to employ similar concepts to that of the SIB.

In the case of the Stock Exchange however, the influence has flowed in both directions and the SIB has incorporated several of the concepts of the Stock Exchange's earlier rules in its own draft proposals. It has also amended some of its proposals in line with Stock Exchange requests, for example on the issue of "soft-dollar" services provided by brokers to fund managers.

The most important differences between the old and new Stock Exchanges rules are the introduction of conduct of business rules and the deletion of the minimum commission rules.

The previous rules were much less specific than the new ones on executing a deal on the best terms for clients and on the suitability of advice. But a tightening of the regulations has been considered necessary because of the greater risks of abuse, particularly of private clients, by those firms which will be dealing both as market-makers (i.e. principals) and brokers.

Nevertheless, the Exchange's categories of customers—counterparties, clients and execution-only clients—are simpler than the SIB's, which distinguish between experienced, professional, business and occasional investors. The Stock Exchange thus makes no distinction between institutional and private investors.

The new rules will require brokers to obtain consent in advance from customers if they wish to deal with them on anything other than the traditional, pure agency basis. This includes dealing as principal, crossing-over shares between different clients who want to buy and sell, recommending in-house unit trusts, advising on shares which the firm has underwritten or in which it has some other material interest.

The two most contentious issues in the conduct of business rules which have to be resolved are the segregation of clients' funds and the client agreement letter. The Stock Exchange has protested strongly to the SIB against the requirement in its draft rules that all authorised investment firms should keep their clients' money in accounts separate from their own money and ensure that it is withdrawn only in response to instructions from the client.

The Stock Exchange says that at least until computerised account systems are widely used, it will be an administrative nightmare for brokers to receive and pay frequent small amounts of money for their private clients out of segregated accounts. Segregated accounts will not, in any case, stop fraudsters, who will still be able to take out their clients' money for illegitimate uses.

The SIB argues that segregated accounts are designed not to stop out-and-out fraudsters but to deal with a more common situation when a firm in financial difficulties borrows clients' money to tide it over, and lurches deeper into debt. The rule will act as a trip-wire offence allowing supervisors to intervene immediately as soon as they spot signs of trouble. A compromise on the issue is currently being sought which will uphold the principle without requiring reliance on such burdensome machinery.

The Exchange has also decided not to compel stockbrokers to issue client agreement letters at least until the SIB rules come into force next year. Meanwhile, however, most brokers are likely to use a pro forma letter to disclose all potential conflicts of interest to clients. But the clients will not have to sign and return the letter as the SIB will require.

The Stock Exchange has also introduced much tighter requirements on market-makers and brokers to report transactions and prices for surveillance purposes and for the new electronic information system, SEAQ. These rules will be of interest mainly to the new Recognised Investment Exchange (RIE) whose functions are to be separated from the Stock Exchange's SRO functions under the SIB rules and the terms of the merger agreement with Isro.

The new capital adequacy rules will be relied on by both the SRO and the RIE. They too are much more specific than the previous rules for jobbers, which ensured merely that some sort of buffer existed against the risk of default. Under the new requirements, market-makers will be limited to maximum bull or bear positions, expressed as a multiple of their available capital and in accordance with the riskiness of the underlying securities.

The new rules are also expected to lead to an internal reorganisation of the Stock Exchange's departments so that there is a closer correspondence between organisational responsibilities and the way the rules are sectionalised and divided between the SRO and RIA.

Clive Wolman

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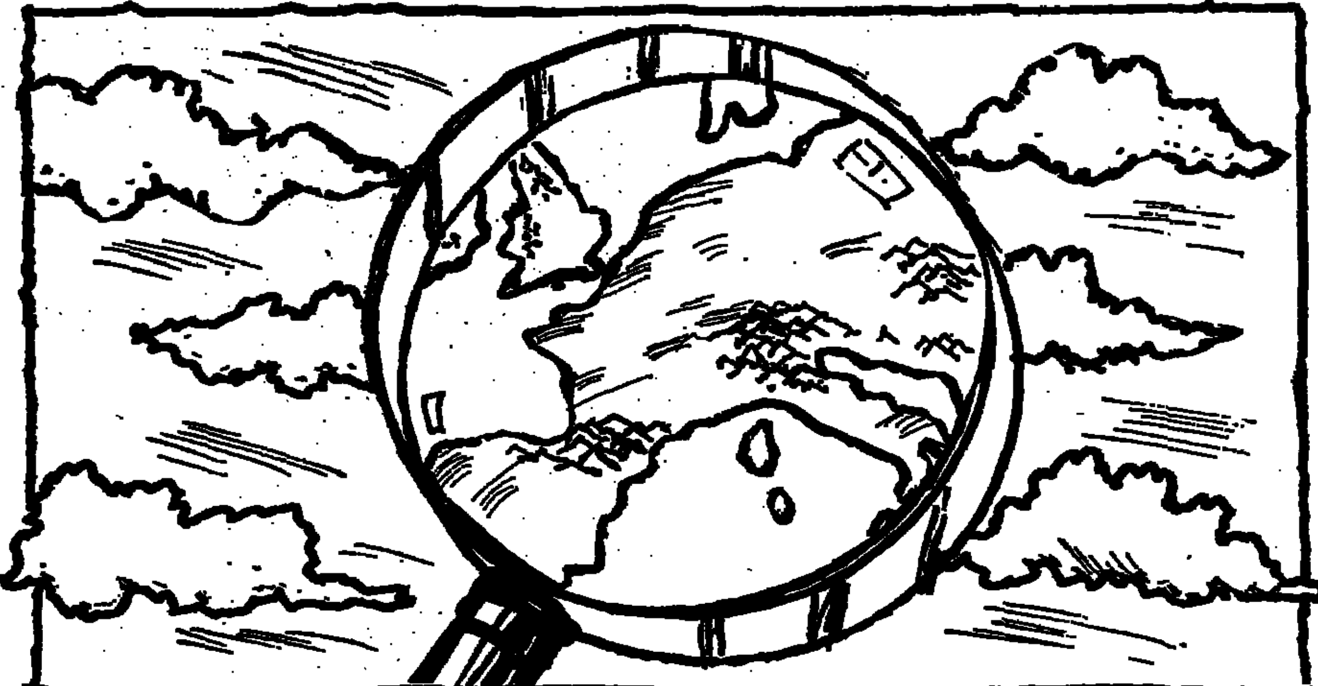

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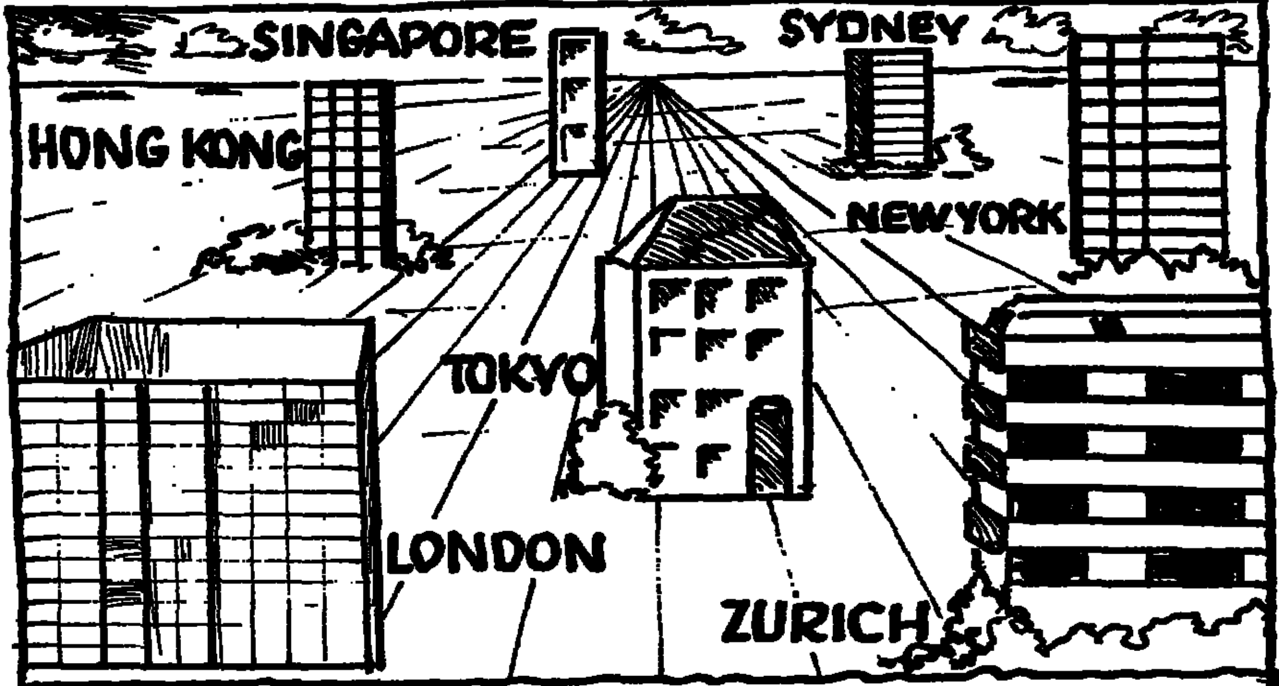

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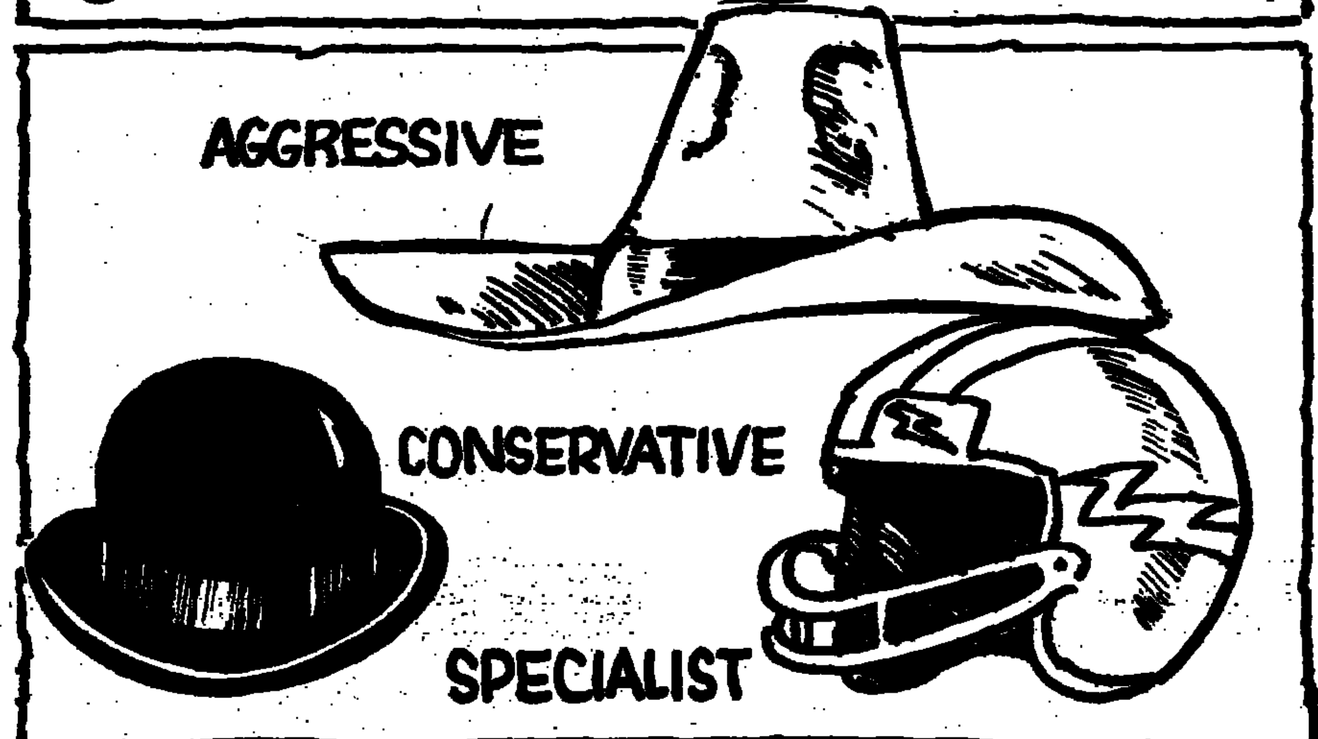

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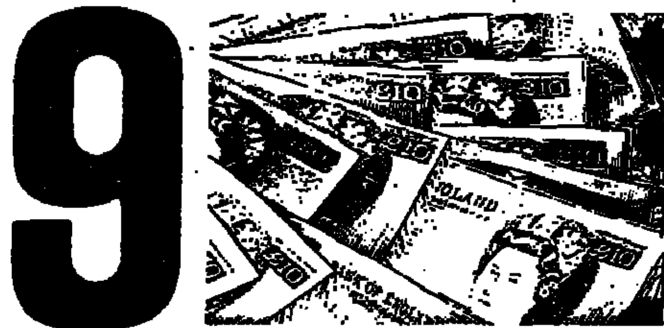

THE BANKS

Many British and foreign banks have jumped at the opportunity to become part of the London securities market. Investment banking has become a major growth area for many of them. Yet deregulation in London has not yet been matched in New York and Tokyo.

WHEN PEOPLE talk about the risks and rewards of Big Bang, they usually mean those facing the banks, securities houses or stockbrokers who are plunging into new markets.

But risks and rewards—albeit of a different kind—also attend another institution: the Bank of England, which has played a major role in bringing the Big Bang about. If it goes well, the Bank will be able to claim some of the credit for ushering in a new era in the City. If it goes badly, a lot of the blame will be laid at those large doors in Threadneedle Street.

The Bank has been enthusiastic about reform right from the start. Back in 1984, in a speech where the words "big bang" were heard for the first time from an official's lips, Mr Robin Leigh-Pemberton, the Governor, said that the Bank's wish "is to see a stock exchange which offers maximum liquidity and investor protection; and which plays its full part in a vigorous competitive UK securities industry, capable of gaining a significantly larger share of the total world market."

Although the Bank is not officially responsible for the UK securities markets, it is concerned with the health of City institutions and with London's place as a financial centre. At the turn of the decade it was increasingly obvious to people at the Bank that the City was weakening on both these counts: the Stock Exchange was not adapting to a fast-changing world, and the removal of exchange controls in 1979 had proved to be a golden opportunity for foreign firms to grab a large slice of the UK investment business, rather than the other way round.

At the outset, the Bank had two broad goals. One was to reform the stock exchange. The other was to ensure that, out of the process of change, there emerged large, well-capitalised UK-based investment banking institutions, capable of taking on the large foreign giants who increasingly dominated the world securities markets. So it encouraged the discussions at the Stock Exchange, and then prodded UK banks into forming alliances with stock exchange members to create the new investment banking groups (not that many of them needed much urging).

The Bank's concern with investor protection also brought it into the debate over the new regulatory regime. The Governor appointed a group of "wise men" from the Ciy to advise him on the issue. They came out in support of the Bank's view that self-regulation as opposed to a statutory regime, would be practicable. So the Bank backed the establishment of the Securities and Investments Board, and helped it get going by granting it office space in one of its buildings and advancing it a loan.

In its role as banking supervisor, the Bank has been keen to ensure that banks do not suffer any undue risks by plunging into the volatile securities markets. It has put forward rules of its own on the amount of capital banks need to support securities operations, and the safeguards they must have to prevent any losses they incur from hurting the banking business.

The Bank's greatest task, however, has been to reform the gilt-edged market which was directly affected by the changes going on in the Stock Exchange.

Early on, the Bank decided to remodel the market along US lines by recognising a group of "primary dealers" who would be responsible for providing liquidity to the market in exchange for having privileged access to the Bank's own dealing facilities. The main issue was who these primary dealers should be.

The Bank could at this stage—in 1984—have decided to limit the numbers to a handful of dealers, to ensure that competition did not get out of hand. However, that would have gone against the spirit of Big Bang which is to open markets up to all qualified institutions. So the Bank proposed to accept all institutions which met its criteria for soundness and ability.

That decision could turn out to be one of its less well-advised. Although the number of dealers has fallen from the 31 originally accepted to 27, everyone agrees that dealing capacity in the market is wildly in excess of likely trading volumes. If, as seems probable, blood is shed, the Bank is bound to come under fire for mishandling it.

One of the Bank's major responsibilities post-Big Bang will be to supervise the gilt-edged market, and ensure that the primary dealers stick to the trading rules it has set. It has installed sophisticated computerised monitoring systems which will enable it to analyse at the end of each day the positions of the 27 dealers, so action can be taken if any of them are heading for trouble.

Aside from that, the Bank's formal role will be limited to such matters as helping in the selection of members of the SIB and—as before—managing the government debt.

The bigger question is the extent to which Big Bang will alter the large informal role which the Bank plays in City affairs.

Given that Big Bang has swept away much of the clubbishness that held the City together, the Bank's ability to influence events through discreet, informal channels will probably decline. Increased competition, a bigger foreign contingent, much greater market complexity—these all demand a more explicit regulatory systems than the nod-and-wink methods of yore.

That may be to the good. The Bank had become a bit like the City's mother hen, looking after everybody whether they were banks or not. And, though it played the role circumspectly, it was unrealistic to expect a single institution to keep this entire fast-growing and increasingly rumbustious brood in order. Instead, the Bank will probably have to accept a more limited role. In this sense, the Big Bang will make its mark on the very institution which helped light the fuse.

David Lascelles

The trading floor of Barclays de Zoete Wedd (BZW), the new entity set up by Barclays Bank.

Robin Leigh-Pemberton, Governor of the Bank of England: if the new era goes badly, blame will be laid at the doors in Threadneedle Street.

Banks join the SE

Dominant role in new equities

THE BIG BANG was an open invitation to banks. With only one or two exceptions, all the new entities which have evolved over the past year or two to take advantage of the deregulation of the City were put together—and are now dominated—by banks.

They range from NatWest Investment Bank, the new subsidiary created by the UK's largest clearing bank, down to some modest little securities operations established by the smaller accepting houses.

Banks were the obvious institutions to take the lead. For one thing, they have the resources to build up large new securities operations. For another, the growing popularity of securities-based finance among their best corporate customers meant they had to follow this trend or risk losing a sizeable amount of their business to securities houses.

The banks' broad aim has been to create divisions or subsidiaries able to originate issues of securities for their clients and distribute them to investors. This meant they had to be able to underwrite issues markets in them and act as stockbrokers.

They also had to create specialised subsidiaries to join the stock exchange and operate in the gilt-edged markets. Other functions such as corporate finance and fund management have also been included.

Not surprisingly, given the task of creating new businesses on this scale, banks have gone about it in widely differing ways.

The most ambitious was Barclays Bank which spent more than £100m buying Wedd Durlacher, the jobbing firm, and de Zoete & Bevan, the stockbrokers. These have been rolled up with Barclays Merchant Bank into a new entity called Barclays de Zoete Wedd (BZW) which is capitalised at £240m and employs 1,400 people.

By buying large ready-made businesses, Barclays saved itself the trouble of developing them. On the other hand, it must now blend these parts into a workable whole capable of justifying this hefty investment—a task which others say could be extremely hard.

NatWest took a more cautious approach. It spent only £35m buying second rank jobbing and broking firms (Bisgood Bishop and Fielding Newson-Smith) and has used the last year or two to build them into an operation that is at least as big as Barclays. NatWest Investment Bank, of which County Bank, its merchant banking subsidiary, is the core, is capitalised at £310m and employs 1,400 people.

Although NatWest spent less than Barclays, the job of building the business up to a comparable size seems to have created strains on the personnel front which has distracted an otherwise clear-sighted management.

Midland Bank also took a more limited route. It bought only a stockbroker, W. Greenwell & Co, which it has merged in with Samuel Montagu, its merchant banking arm.

However, instead of establishing them as a separate subsidiary, Midland has gone a stage further than the other clearers and combined them with its own treasury division. The rationale is that investment banking and treasury are all about dealing in markets, so they belong together. The unit *goes by the name of Midland* Montagu.

Lloyds Bank, smallest of the Big Four, has taken the most low-key approach. It has not bought any outside firms but has built up its own internal Lloyds Merchant Bank which will play only a limited role, mainly in corporate finance and the gilt-edged market.

Equities are not included. Lloyd's view is that other banks are risking too much on the unknown; it would rather wait and see what happens and, with luck, pick up some business cheaply after Big Bang.

LMB employs about 690 people and is capitalised at £135m.

Among the merchant banks, two have had ambitious plans right from the start of the run-up to Big Bang three years ago.

Mercury International Goup, the parent of the S.G. Warburg merchant bank, took a similar line to Barclays by buying a large jobbing firm, Akroyd & Smithers, and a leading broker, Rowe & Pitman, as well as a smaller one, Mullens & Co.

But unlike Barclays, where BZW had to be fitted alongside the clearing bank, Mercury has used Big Bang to transform itself into a major investment bank combining a new UK securities business with its existing strengths in corporate finance and the Euromarkets. Although Mercury does not have Barclays' firepower, its mentality is probably better suited to Big Bang because of its longer experience of securities markets.

Similarly, Kleinwort Benson bought a broker, Grieveson Grant, and a jobber, Charlesworth, and has bound them together into an investment banking operation which is similar in size to Mercury's. The balance of Kleinwort's business is different, though. Its banking business is larger, and it has strong specialisations like swaps and US Treasury bonds, while its Euromarket business is smaller.

A later arrival is Morgan Grenfell which failed to secure one of the big Stock Exchange firms in the acquisition frenzy of 1984 and ended up having to build up a brand new equity business itself. It has made up lost ground but its name has yet to achieve the same credibility in the securities markets as its leading rivals.

The need to secure enough capital to supply this new business forced Morgan to seek a listing for its shares on the Stock Exchange this summer and raise £150m.

Other merchant banks which have sought a place in the Big Bang include Hill Samuel, which has married up with Wood Mackenzie, the stockbrokers, and has committed a total of £60m to gearing itself up for the new era in the City.

Schroders has set up an equities business to tie in with similar operations it is establishing in the US and Far East, but it is holding back from the gilts market. Barings will be *making markets in gilts*; and Charterhouse, the merchant banking subsidiary of the Royal Bank of Scotland, has linked up with a regional stockbroker, Tilney.

The Guinness Peat Group bought a small jobbing firm, White & Cheesman, and a broker, Henderson Crosthwaite. Brown Shipley, one of the smallest accepting houses, bought a broker, Heseltine Moss.

Others have decided to go it alone, like Robert Fleming which began to make markets in equities two years ago and is now a member of the Stock Exchange in its own right. And others still have gone only part of the way. Hambros stopped at a 29.9 per cent interest in Strauss Turnbull, the Stockbrokers specialising in the Euromarkets, and Rothschild has a 34 per cent interest in Smith New Court, a new securities group created out of Smith Brothers. Both these merchant banks are taking a cautious view of Big Bang and believe a minority stake is the wisest course for the time being.

What this shows is that banks have been able to adapt themselves to Big Bang in all sorts of ways (some like Lazards have even declined to get directly involved at all). The question that must now be answered is whether they are also suited to a life in the securities markets.

The clearing banks certainly have the capital to survive, but do they have the skills? The position of the merchant banks is the other way round: they probably have the skills, but are they big enough to compete among the world's biggest financial institutions?

What seems certain is that the names on the starting line will bear little resemblance to the field that is still running a year or two from now.

David Lascelles

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Securitisation

A propitious moment for the Bang

IF THE Big Bang had happened 10 years ago, it could have turned out quite differently, for all sorts of reasons. One of them is that banks probably would not have played such a dominant role; indeed, they might not even have been interested in it.

This is because in the 1970s bankers were almost exclusively concerned with making loans. At the international level, banking centred on the burgeoning market for syndicated lending, and bankers measured their success by the amount of loan assets they could put on their books.

That has changed radically. The 1980s are turning out to be the decade of securitisation: the process of raising finance for large customers by selling their securities rather than by lending them money directly.

This has made banks very interested indeed in developing the securities side of their business. Because of that, the Big Bang has arrived at a very opportune moment.

In the first half of this decade, the volume of international loans fell to a quarter of their earlier levels, from about $100bn a year to about $25bn, while issues of bonds and notes quadrupled from about $50bn to nearly $200bn. In other words, nearly eight times as much new international credit now takes the form of securities as opposed to loans.

At the same time, new techniques developed by US investment banks have "securitised" new areas, such as the packaging of loan assets like mortgages and car loans into securities which can be sold off to investors. These techniques have yet to take hold in a big way in other countries, but they are said to be indicative of the general trend.

Other notable innovations have included so-called Note Issuance Facilities (NIFs), which are commitments by banks to buy new securities issues off a client when it cannot sell them directly into the market.

According to a recent study by the Federal Reserve Bank of New York, this form of "off balance sheet" lending has risen from the equivalent of 35 per cent of US banks loans to 43 per cent between 1982 and 1985. It is now running at the rate of $40bn a year.

This securitisation trend has been stimulated by a number of things. The banks' disenchantment with lending in the wake of the Third World debt crisis has made them keener to advance credit in a form that they can sell off to someone else, mainly as bonds, and so reduce their risks.

For large multinational corporations, securities-based finance has become cheaper than bank finance: they can use their strong credit standing to tap sources of funds directly by issuing securities, rather than paying a bank to lend them money. Many of them are now anyway more creditworthy than banks and able to obtain money on better terms.

On the other side of the market, investors have found that they can obtain higher yields by buying corporate bonds and paper than by leaving their money on deposit in a bank. This process has been hastened by the decline of the Middle East as a source of deposits, and its replacement by the more investment-minded capital-rich countries of the Far East.

The boom in capital markets all round the world has also helped, while the general decline in interest rates in the last three years has made it much easier for investment banks to carry securities on their books, thus providing greater liquidity.

Securitisation has gone furthest in the debt markets, which are the best developed at the international level, and also best suited to accept repackaged loan assets. Securitisation is not a trend that is as relevant to the equity markets because most equity finance already exists in the form of securities.

Nevertheless, the ability to arrange securities-based finance, be it debt or equity, in a wide range of currencies is now considered to be the key to successful international banking. And this accounts for the eagerness with which banks are joining stock exchanges wherever they can, and seeking recognition as dealers in domestic bonds.

Although the Big Bang is probably the most significant event currently aiding this process, the events in London are also being echoed in other centres such as New York and Tokyo (insofar as local regulations permit), and in other financial centres in Europe and the Far East.

It is also a godsend for US and Japanese commercial banks which cannot engage in corporate securities business in their home markets, and would have been left behind the whole securitisation trend but for the chance to join in in foreign centres.

But while securitisation has generated an enormous amount of excitement in the banking business, it raises two major questions:

One—the concern of banking regulators—is whether it is safe for banks to involve themselves too deeply in securities markets. The regulators have responded to this by getting special capital requirements for banks offering certain types of securities instruments as an extra cushion against loss.

Ironically, banks have probably exposed themselves to far greater risk of loss through their conventional loans to Third World countries than through their new-fangled securities operations. But bank regulators, understandably, are suspicious of rapid innovation.

The second is whether securitisation is a lasting trend. This must be a particular concern to banks which have invested extremely large sums of money to develop securities businesses, and undergone massive and often painful management upheavals.

The answer to this question is still unclear. Many bankers claim that history suggests securitisation is the basic trend of international banking, and that the lending boom of the 1970s was the aberration. They point to the big international bond issues by Latin American railways and imperial government at the beginning of this century.

On the other hand, the recent securities boom owes a lot to the deregulation of financial markets, the decline in interest rates and boom conditions in world economies.

All of these could be reversed if the political or economic climate changed radically enough, and brought securitisation to a grinding halt. It looks unlikely at the moment, but it seems equally unlikely that the boom in securities finance will go on for ever.

David Lascelles

The NatWest Tower overlooking the Stock Exchange block in the heart of the City. Ability to arrange securities-based finance is now considered the key to successful international banking.

Regulatory environment

A magnet for foreign banks

THE BIG BANG has frequently been compared to Wall Street's May Day 10 years ago when fixed rate commissions were abolished, ushering in a period of great upheaval and change in the US financial community.

But Big Bang is much more than that. It is as if the US were simultaneously having a May Day and abolishing the Glass-Steagall Act, the statute which creates a dividing line between the US investment and commercial banking business. In that sense, Big Bang is a major event in the history of financial regulation.

Although the UK has never enforced the division between commercial banking and the securities business through law, an effective barrier has existed because of the restrictive practices of the Stock Exchange. Big Bang marks the removal of that barrier, and opens the way for banks to become members of the Stock Exchange and develop fully-fledged securities businesses.

On the international scene, that makes London one of the most liberal financial centres in the world, and adds to its appeal to foreign banks. It is true that banks in countries like France, Germany and Switzerland have long acted as "universal" banks on their domestic markets. But the relatively smaller importance of equity markets in those countries has meant that foreign banks have not been in any great hurry to join them.

The relative openness of London is particularly appealing to US and Japanese banks who can now engage in businesses in the UK from which they are barred on their home markets.

In the US, the Glass-Steagall Act forbids banks to underwrite corporate securities, one of the key activities in any self-respecting corporate finance operation. The definition of securities in this case, according to a US court ruling earlier this year, includes commercial paper, an area into which banks had hoped they could expand.

At the moment, the prospects for dilution, let alone abolition of Glass-Steagall, seem extremely remote because of fears in Congress that banks cannot be trusted to engage in the risky securities business — to the profound frustration of US bankers who see themselves cut out of some of the country's most innovative and lucrative markets.

Similarly in Japan, the Securities Law keeps banks out of corporate securities underwriting. Although Japanese banks are pressing for reform just as hard as their US colleagues, the view in Tokyo is that the law will not be changed until something happens to Glass-Steagall.

The result of this is that US and Japanese banks must go abroad if they want to deal in corporate securities (since the respective Acts' force is not extraterritorial). All of them have set up Euromarket securities operations in London but the Americans have taken full advantage of Big Bang to set up UK equity and bond divisions as well.

The Japanese, who are subject to closer control by their Ministry of Finance, have yet to take that step, but are expected to in time.

The fact that these banks cannot engage in corporate securities activities on their home market does slightly undercut the credibility of their efforts abroad, but evidently not to any inhibiting extent.

By the same token, the laws in the US and Japan restrict the movements of foreign banks seeking to set up shop in those countries, and add to the complications of establishing "global securities capabilities" along the lines of the less heavily regulated investment banks and securities houses.

However, some loopholes are opening up. In the US National Westminster Bank has succeeded in obtaining the permission of the Federal Reserve to open an equities research and broking operation which breaks new ground, though actual underwriting of securities remains illegal. Several other banks are expected to follow suit.

In Japan, a handful of foreign banks have also managed to obtain licences to deal in securities but they have to conduct the business through part-owned subsidiaries which are run at arm's length. These licences were granted by the Japanese after much pressure from foreign banks and governments, partly to ease trade frictions, and partly to obtain privileges for Japanese institutions abroad.

One of these privileges was the granting of a banking licence by the Bank of England to Nomura International, the UK arm of Japan's largest securities houses. This event, which occurred last month, is a rare instance of a securities house crossing the Glass-Steagall-type divide in that direction. Most of the pressure comes the other way: from banks wanting to get into the securities business.

So, although the Big Bang is of great significance for UK domestic financial markets, it also represents a rare opening in the global marketplace for institutions to widen the sphere of their activities. Large US banks like Citicorp and Chase Manhattan now own major London equities operations, and Japanese institutions are expected to do likewise once the dust from the Big Bang has settled.

If they demonstrate that they can run these businesses without getting into trouble, they should also be able to strengthen their case for reform back home.

David Lascelles

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Trading floors

Space matters more than location

Securities firms now need large, high-tech trading floors to accommodate their new-style operations. The shortage of such premises in the financial district, the City of London, has caused a search stretching from the West End to docklands.

ONE OF the most striking physical effects of Big Bang has been the race to fit out giant integrated dealing rooms. And "giant" is no loose term in this context."

Salomon Brothers, unable to find a suitable building in the City to bring its London-based bond dealing, debt securities trading, real estate, and commodity operations under a single roof, went west, leased the 156,345 sq ft Victoria Plaza building, and has since been happily wiring up the atrium of the block to create a 13,000 sq ft trading room in the centre of an open dealing area of 55,000 sq ft.

Just to get a sense of the scale of that, Lloyd's "room" in Richard Rogers new building is, by any indoor standards, big. Underwriters complain of agoraphobia. Yet Lloyd's room covers only 7,000 sq ft of floorspace. Salomon Brothers' dealing area at Victoria Plaza, eight times larger, wil have the biggest private trading room in Europe. And although Mr Charles McVeigh, managing director of Salomon Brothers does concede that "the new space will rovide ample room for future growth," other major financial players are already talking of even bigger open-plan dealing rooms.

Floor areas of 25,000 sq ft tend to be the starting point of conversations about new financial services buildings these days. Citicorp is fitting out more than that inside the old Billingsgate fish market buildings which it is converting for use as its trading centre. Later phases of the Broadgate office complex, as it spreads out over Liverpool Street station's rail lines to Bishopsgate, will offer floors of 38,000 sq ft, and ground plans to allow 40,000 sq ft areas in LEP House to be built by the steps of St Pauls.

Large open area floors (LOAPs) have become more important than location in choosing a building for a financial services group. Not so much from choice, as from necessity. In its revised draft plan, the City of London accepted that, "much of the existing office stock in the City is unable to accommodate the requirements of the modern office user." Ironically, much of the most recent built parts of its 65.5m sq ft of offices—the 8.8m sq ft built in the 1960s and the 9.4m sq ft dating from the 1970s—is the least adaptable for integrated electronic offices use. These concrete office towers, with filing cabinet tiers of floors, low fixed ceilings, and inadequate power to run or cool desk-top equipment, are being shunned by the incoming banks and securities houses and by home-bred conglomerates alike.

As a result, Mr Peter Rees, the City's energetic new planning controller, is encouraging developments of suitable large floor area buildings in what were formerly fringe City areas, away from the site and street line constraints of the traditional banking core around Lombard and Threadneedle streets.

New building on cleared sites, broad-based buildings won from the air by "decking" across roads, plus modern space created behind the preserved facades of Victorian and Edwardian buildings, gutted and with restacked floors to achieve the room heights needed to pack in a spaghetti of underfloor wiring and in-ceiling air conditioning, could add 20m sq ft of new space to the City's stock by the mid-1990s.

In the meantime, the queue for big office areas is variously estimated at between 6m and 9m sq ft, and, with pre-letting and pre-purchases of the large area floorspace due to be completed in the City in the next two years, not everyone is waiting patiently in line for the City plan to bear fruit.

Banque Paribas Capital Markets followed Salomon Brothers west to pay a City scale £31.50-a-square foot for Ladbroke's refurbishment of the former Debenham & Freebody department store in Wigmore Street. The Canadian Imperial Bank of Commerce, Price Waterhouse, WICO Galloway & Pearson, and Citicorp—a ferry shuttle away from its Billingsgate trading centre—all overcame the traditional barrier of the Thames to financial occupiers by taking space in the Kuwait Investment Office's London Bridge City offices on the south bank. And others merely await confirmation of the Bank station link of the Docklands Light Railway before revealing their decisions to move to the net 8.8m square feet of offices planned at Canary Wharf in the Isle of Dogs Enterprize Zone.

In the words of Citicorp executive director Mr John Rogers, "the synergy for these large agglomerations will only occur when we get people into common premises. "And for those who have managed to find the space to bring their trading operations together, the sharp edge of the estimated £4bn being spent by City businesses on the installation of electronic dealing equipment, computerised information and back-office settlement system is visible in more than 2,000 dealing rooms now operating across London.

At the cheap end of the fitting-out work, a single top quality dealer chair can cost £400 to £600. Mr John Bristow, whose Bristow Designs' label appears beneath many a £100,000-a-year trader's seat, explains that, apart from the back support needed if you're crouched over live screens all day, "they are dealing with split-second timing, and you can lose a deal because of having to pull or push a chair across to a screen."

Chairs also have to be solid enough for dealers to stand on. Not that they are likely to spend much time on their feet, but research into optimum dealing room accommodation—a fair bit of which, incidently, has been based on stress surveys carried out on US military personnel manning nuclear weapons' bunkers—revealed that, notwithstanding the sophisticated electronics, the most efficent way of announcing a market crisis fast is to stand up and shout. That's another reason for open-plan floors with as wide as possible an area of vision and—one presumes—good acoustics.

The work surface facing each dealer can be another £2,000 of system built space. But it is easier to throw that away—custom-cut screen holes, cable ducts and all—if and when the electronics are upgraded. It is the wiring and the electronics that cost serious money. Mr Doug Wigfall, of the Alan Cooper furniture group, helped work out the British safety standards for office wiring. He explains that, with a dealer positions, "normally we'd be talking about half-a-dozen mains cables, two or three telecom cables and one or two for data."

Hence the need for raised floors to pack the wiring away. When Midland Bank fitted out its 125-position interbank trading room, for instance, it ended up with 55 miles of cables and wires. And at between £20,000 and £30,000 a time for the electronics on, in, and around each position in any average City trading room, the need to avoid a sauna-like atmosphere calls for space enough above to fit in cooling ducts linked to atmospheric systems using as much as 10 watts of power a square foot. Since the on-desk electronics can use as much power again, that's between 15 and 20 times more than the standard electricity capacity built into a standard office block of the 1960s.

The big banking and securities houses' trading floors attract the headlines, but Mr Michael McGowan, whose SBFI group (Specialised Banking Furniture International) fits out many of them, estimates that, over the City's full complement of 2,000-plus trading centres of all kinds, "the average size has gone up to 20 or 30 positions." So 40,000 to 60,000 traders are now wired for action.

As for the majors, Mr McGowan reports an impressive leapfrogging in scale from Salomon's initial 300 positions, beyond NatWest Investment Bank's plans for over 400, S G Warburg and Mercury's 480, Merrill Lynch's 550, to talk of American Express upgrading its Broadgate dealing capacity to house 900 positions.

Whatever else it achieves, the Big Bang will have a profound and permanent impact on the shape and interior of the City's buildings.

John Brennan

Some firms await confirmation of the Docklands Light Railway link before deciding whether to move to the enterprise zone.

The Impact of Big Bang on Demand: June 1984-July 1986:
Take up of units of 20,000 sq ft + to single occupiers

POST CODE	Number of Units let over 20,000 sq ft (net) to a single occupier	Total Floorspace involved (Net sq ft)	Percentage of Total Takeup by Type of space			Percentage of Total Takeup by occupier type—"Big Bang Classification"*			
			New	Refurbished	2nd Hand	Conglomerates	Seles	Wait & See	Non-Big Bang
EC1	12	746,000	71	4	25	15	32	—	53
EC2	31	2,337,000	81	12	7	52	29	11	8
EC3	24	1,060,000	69	4	27	35	9	15	41
EC4	28	1,794,000	68	23	9	16	31	18	35
E1	8	351,000	64	36	—	24	—	7	69
SE1	14	1,067,000	72	25	3	42	17	—	41
TOTALS	117	7,355,000	73	16	11	34	24	10	32

*BIG BANG CLASSIFICATION
Conglomerates—companies involved in Big Bang related merger/acquisitions.
Seles—companies taking a direct involvement in post Big Bang equities and gilts markets without a new partner
Wait and See—banking and financial services companies not yet taking a direct position in new post Big Bang markets.

This table presents an analysis of 117 lettings over 20,000 sq ft (net) to a single occupier since June 1984, irrespective of whether the letting was Big Bang or otherwise. The total floorspace involved is over 7.3m sq ft in the post-code areas EC1-EC4, E1 and SE1. This is a comprehensive record of lettings in the open market in the City and City Fringes, although it is not a complete record of all "Big Bang lettings," in view of recent acquisitions in the West End by Morgan Stanley, Salomon Brothers, Credit Suisse First Boston and others.
Source: Edward Erdman

City of London

Vistas on expansion

THE city of London, its main potential competitor and an observer of international precedent recently took a look at City development prospects at the end of June.

Michael Cassidy, chairman of the City Corporation's planning committee, was joined as a speaker at the Profex conference on Development, Investment and Finance after the Big Bang by J. Scott Lowry, director of the Canary Wharf Development Company, and Geoffrey Carter, a director of Trafalgar House.

Mr Cassidy emphasised the "high degree of physical proximity" which, he thought, had helped the City of London to lead the world with 25 per cent of its banking transactions, against 15 per cent in New York and 9 per cent in Tokyo.

"In my view, face-to-face contact is still very important in this business," he said, "and foreign bankers like the historical ambience of the City of London."

He repeated at that conference that the City's revised local plan, published in March 1986, had created the scope to build an extra 20m sq ft of office space in the City to meet the demands of the securities industry revolution.

Mr Lowry, whose 12½m sq ft plan for Canary Wharf, three miles east of the City, gives him a slightly different perspective, approached the City's development prospects slightly differently.

Looking at potential developments of over 50,000 sq ft within the City boundaries, he counted at that time 27 where planning permission had already been granted, adding up to 3.8m sq ft gross—but 12 of those permissions related to sites still occupied.

He counted another 27 schemes in the planning pipeline, which totalled 4m sq ft gross, with 13 of those sites still under occupation. "What is the net gain to supply?" he wondered.

Finally, he looked at potential development sites, noting 12 major proposals aggregating up to 5m sq ft gross, and, he said, carrying their own inherent problems of site assembly; relocation; infrastructure; and on the heritage and design.

He was clearly implying that, within its own boundaries, the expansion of City office space was easier to envisage than it would be to achieve.

Mr Lowry also cast doubt on the investment qualities of some of the City's existing building stock: "The current bull market in City property," he said, "is an opportunity to get out of buildings which, in three to five years, will be albatrosses—and virtually impossible to sell."

Mr Carter, chairman of the Trafalgar House group's commercial and residential property divisions, quoted research which borrowed from the experience of New York. The US financial capital has had its own Big Bang some years ago, and saw jobs in financial services expand by 25 per cent, with a similar growth in space requirements.

That, he said, would imply a requirement of 15m sq ft or more in the City. He said that the Big Bang was a "once in a lifetime" opportunity for developers. "But they don't all have to be in the City," he maintained.

Mr Carter agreed with Mr Lowry's point on existing City stock, saying that 61 per cent of those employed in the City occupied pre-1959 buildings.

Occupier power, accepted by developers after the recession of the early 1980s, had led to big buildings on the periphery of the City. "This suggests to me that there will be a decline in values in the core," said Mr Carter, referring to the square mile largely occupied by top names in banking and insurance and largely covered by conservation policy. "They'll eventually become lower-value museum areas," he said.

But things could change—again. They are very different now, in the City itself, from two years ago.

In November 1984, the City Corporation unveiled its original draft plan for the City of London's development up to the end of this century. It criticised the amount of office development which, it claimed, was stifling other parts of the City's economy; it also placed heavy emphasis on the need for conservation.

The genesis of Canary Wharf changed all that. It allowed proponents of large-scale development within the City's boundaries to focus on a well-argued case for millions of square feet of extra "city" space—and the threat that the new "city" would be created virtually on the Corporation's doorstep.

This threat was different in character from the cases of dispersed decentralisation—bankers, frequently American, moving mostly back-office staff to Holborn, Stratford, Croydon, even Cardiff—which had previously led commentators to question the staying power of the City.

The response is now well known. The City of London Corporation overturned its previous clampdown on office development in order to safeguard the City's role as one of the world's most important financial centres.

The revised plan said that new office space, capable of housing the newest communications technology and the latest generation of financial services groups, must be encouraged.

A major revision to the plan involved the calculation of plot ratios which determine the density of office development on any given site. From March 1986 onwards the City said it would ignore any development space created below ground level when making calculations.

This move alone, it said, could, within the next decade, produce an additional 20m sq ft of City floorspace to add to the existing 67m sq ft.

William Cochrane

Dr Michael von Clemm... thoughts of food turned to banking.

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Canary Wharf

Shaking the City's complacency

AFTER A nail-biting summer, Mr G. Ware Travelstead, developer of the 10m sq ft financial centre at Canary Wharf, in the Isle of Dogs enterprise zone, feels confident of having signed up enough major name office-users to ensure that a larger-than-expected first phase of the £1.5bn ($2.1bn) scheme will go ahead.

Since October 1985, when Mr Travelstead revealed plans for a full-scale City-in-exile on the 71-acre Canary Wharf site, critics and fans of the largest comprehensive commercial property development ever proposed in Europe have been sharply and, on occasion, bitterly divided.

Would an alternative, purpose-built financial centre two miles east of the City destroy the cohesion of the Square Mile? That threat made it easier for the new generation of City planners to press ahead with a radical revision of the City of London Local Plan. Between its first draft, in November 1985, and its final version in May 1986, it changed from an overtly conservationist document into a far more development-conscious view of the City's future. Post-Canary Wharf, the City's planners were willing to offer developers commercially appealing plot-density ratios for new buildings and a more positive approach to planning applications.

If Canary Wharf's sole contribution to the financial community had been the complacency-shaking impact it has had on the City's authorities, then occupiers of the extra 20m square feet of offices expected to be built within the City by the mid-1990s have reason to be grateful to Dr Michael von Clemm, former chief executive of Credit Suisse-First Boston and the Roux brothers, restaurateurs.

It was while he was looking for a food-processing plant for the restaurateurs, in the Winter of 1984, that Dr von Clemm came across a large warehouse in the disused East India Docks. He saw a banking, rather than a food, option in the warehouse. It was the first central London building with a suitable sized trading floor that he'd found in three years' futile search for extra space for CS-FB's London operations. Dr von Clemm tried out the idea on Mr Archie Cox of Morgan Stanley International. Together they decided that there might be potential in the site if enough other financial groups could be persuaded to go east.

Less than six months later, Mr Travelstead's development team was in place, and was finalising terms for an option on the site with the London Docklands Development Corporation. The development had the backing of a sponsoring consortium made up of affiliates of Financiere Credit Suisse-First Boston, Morgan Stanley International and First Boston Docklands Associates.

The consortium applied itself to development pre-planning at a pace, and on a scale, that has rarely been matched in Britain. In came Skidmore, Owings & Merrill, the largest architectural practice in the US and UK architects Yorke Rosenberg and Mardell, to produce drawings and ideas alongside the work of transport consultants Stear, Davies & Gleave, structural experts Ove Arup, and the London construction specialists at Bechtel.

Since, as Travelstead says, "transport is the key" to bringing traditional City office-users into Docklands, the developers helped London Regional Transport in the preparation and lobbying for its parliamentary Bill to link the Docklands Light Railway into London's arterial underground and rail network at Bank station. The developers also committed £45m towards the £90m-plus cost of the 3,100 feet of tunnelling needed to make that link between Bank and the Light Railway Terminus at Tower Gate.

Although the London Docklands Development Corporation could sidestep the normally lengthy planning process, detailed planning consents still had to be won to protect the scheme when the LDDC hands over authority for the Isle of Dogs to the local council at the beginning of the 1990s. A construction programme had to be worked out with the five companies building consortium formed by Taylor Woodrow, Mowlem, Laing, Costain, and Sir Robert McAlpine.

Enterprise Zone status, with 100 per cent capital allowances for building work and no rates until April 1992, combines with what are, by City standards, minimal site costs, to enable the developers to sell 999-year leases at £75 a usable sq ft. Mr Travelstead calculates that to be a third of the cost of a fringe City site; and at Canary Wharf the incomers will be building on to prepared foundations, with all utilities in place and included in the price.

Occupancy costs, equating to around £12 a sq ft, would be between a third and a half of those for City offices; and that has proved to be an important selling point for the project.

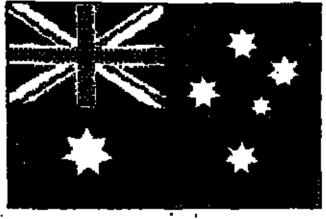
The Canary Wharf master-plan aims to control the quality of building and design, rather than impose a fixed "look" for buildings. It allows for 8.8m sq ft of offices—*including three towers that could, in theory,* rise 250 feet higher than the NatWest Tower, to a maximum 850 ft—along with 800 rooms in two hotels, and ½m sq ft of shops, restaurants and other amenities. Infrastructure work started in the summer, and a start on the first phase of offices this year would mean that those buildings would be ready for use by the end of 1988.

If all the offices, hotels, and shops were to be completed, Henley Centre for Forecasting estimates that they would create 57,150 permanent jobs.

Canary Wharf would also create a sufficiently large alternative office centre to have a profound effect on City rents.

John Brennan

What makes a Stockbroker truly International?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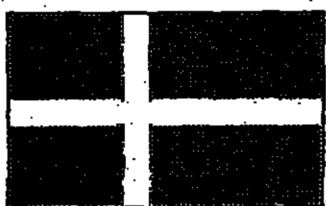
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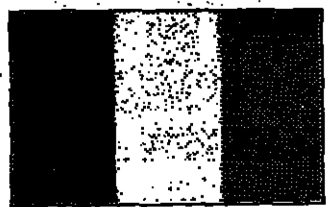
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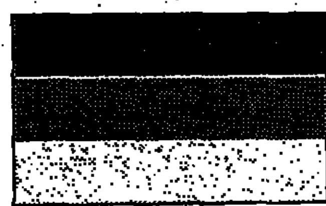
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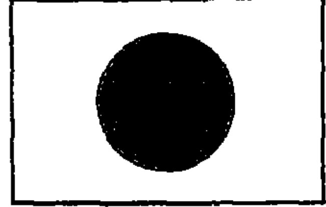
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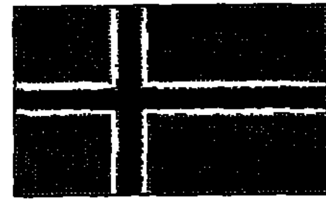
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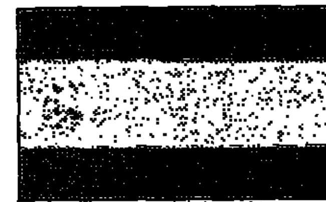
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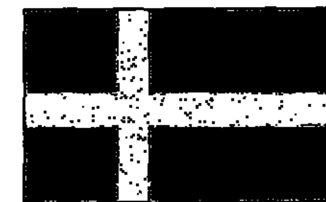
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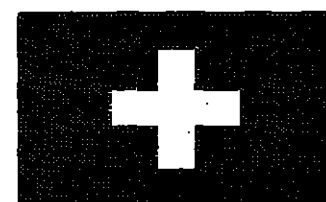
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THE NEWCOMERS

By and large, the American banks and securities firms are enthusiastic participants in the City Revolution. But the response of the continental banks has been patchy, while the Japanese have been constrained by reciprocity problems, although their long-term ambitions are considerable.

Japanese firms

Waiting to learn from others' mistakes

JAPAN'S FOUR big securities companies—Nomura, Daiwa, Nikko and Yamaichi—are taking a long-term view of the Big Bang in keeping with their oriental origins.

Though the largest, Nomura, has recently obtained a seat on the London Stock Exchange, executives from all the houses concerned say that Big Bang itself will have little immediate impact on their business.

One reason, about which the securities companies themselves do not like to talk too much, is that their movement into the London market has been held up by reciprocity problems which have thrown up barriers to UK entrants to the Tokyo market. Another, perhaps more compelling, reason is that is would be hard to justify a major push into UK securities just at the moment.

The securities houses say they have their hands full, dealing with the demands of their customers in Japan. With a current account balance of payments surplus expected to reach a record $75bn this year, Japanese investors are exporting capital at a furious rate. Most of this by-passes the UK and Euromarket, and goes straight into US Treasury bonds. Despite the obvious exchange risk of investing in dollars, this market appeals, because of its trading depth and liquidity, and because it is just about the only market that can absorb all the funds available.

Mr Hitoshi, Tonomura, president and managing director of Nomura International says: "Our existing business, covering investment into Japanese equities and bonds from the UK and Europe, and our activities in the Euromarkets, are very substantial, and this keeps us pretty busy."

At the moment, there is still relatively little demand for UK securities in the Tokyo market, but this could change; partly because of the growing number of UK companies, including British Telecom, Cable & Wireless and Barclays Bank, that have obtained a listing there; and partly because of the education process now being undertaken by the securities houses themselves, to draw attention to the possibility of UK investments.

Mr Hideo Suzuki, of Nikko Securities (Europe), says that overall the Big Bang "will have a neutral to slightly positive" effect on business here. He says the end to fixed commissions will reduce transaction costs in securities, and the reduced execution charges will make for an expanded volume of business from Japan.

Nonetheless, some securities houses still regard the scope for such additional business as limited. Noting that the capitalisation of even large UK companies is still small, compared with their counterparts in the US and Japan itself, an official at another house says that at the moment "it's simply not worth turning on the selling machine in Tokyo."

For the time being, the Japanese houses thus seem unlikely to add much to the competitive spirit that is likely to fuel UK financial markets after the Big Bang. Yet to dismiss them altogether would perhaps be a mistake. At the moment, they are watching intently to see what happens—and, with the canny instinct that has long characterised Japan's approach to international business, they are positioning themselves to move in later, having learned from others' mistakes.

Unlike some of their US investment banking counterparts, Japanese securities houses have not moved to buy up existing UK broking firms. Mr K. Kimura, chairman of Daiwa Europe, says such an idea was considered but regarded as likely to be too controversial in the London market if it was implemented. Nonetheless, it is clear that all the companies are keen to follow Nomura into the Stock Exchange. As a result of Big Bang, all aim to sharpen their market-making expertise in international equities, and all are poised to hire large numbers of staff in London.

Nikko's Mr Suzuki says that he expects a certain degree of shakeout in the labour market after Big Bang, with more experienced staff becoming available at salaries lower than those being paid at present. This should ease Nikko's recruitment problem, just at a time when it is ready to expand its activities.

Similarly, the Japanese houses have not sought to become primary dealers in the gilt-edged markets. Although this is again linked to the reciprocity problems with Tokyo, it means that they will be able to avoid the carve-up that many expect when 27 primary dealers start fighting for a share of the limited business available.

At Nomura, the argument runs as follows. Because of its size, it could not afford to go into the business of gilt-edged dealing without seeing the process through. But, in the strains that are likely to follow from the over-competitive market, some blood is bound to be let. It would be bad for Nomura's image if it ended up driving out domestic firms just to secure a place in the market. Thus, for the time being, a waiting stance has been adopted.

Meanwhile, Nomura has also obtained a deposit-taking licence from the Bank of England which will allow it to develop a wholesale banking business in London. The other securities companies are also expected to be granted licenses eventually when reciprocity problems have been ironed out.

On the surface, it could seem as though this development, coinciding as it does with Big Bang, implies that banking is part of a new strategy for the City. In fact, the two considerations are entirely unrelated. Nomura's banking operation is designed to strengthen its position in the global investment banking world, adding to its funding capability and allowing it to develop a foreign exchange trading expertise of its own, which is regarded as vital, given the expanding numbers of currencies used in the international capital markets.

In other words, Nomura's foray into banking underlines the broad reach of its expansion plans in international financial business. If the Big Bang appears to be passing it by for the time being, this is only because the UK still plays a relatively tiny role in the grander scheme of things.

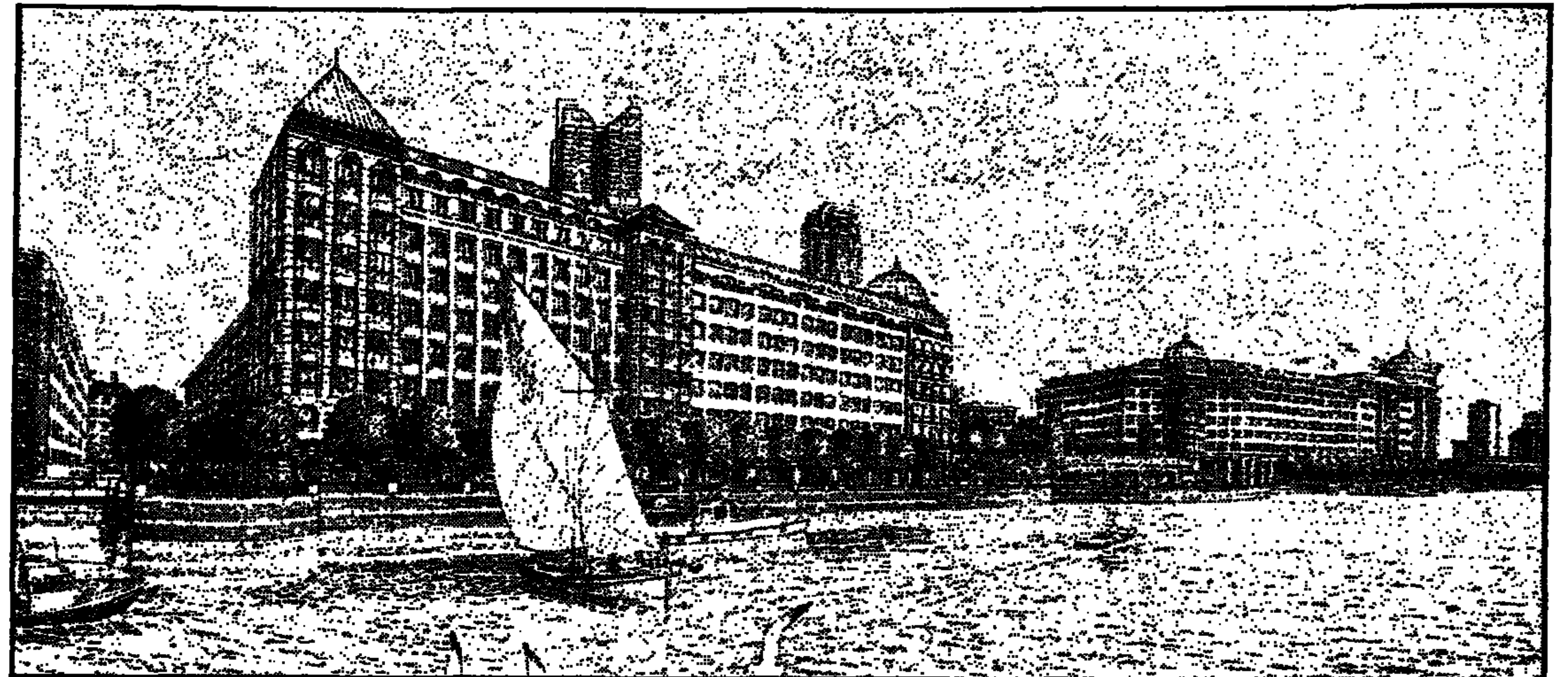
Two things could happen that would change this. The first, and most likely, is that in time Japanese investors will tire of putting the bulk of their money into US Treasury bonds. Then they will seek to diversify; and UK, as well as European, equities will move higher up their list of priorities. That would bring the Japanese securities companies much closer to the centre stage of the City's domestic financial market.

The second possibility is more remote. It is that, having exhausted the huge placement capacity they now enjoy in Tokyo, Japanese firms will seek to expand their distribution capacity elsewhere. Already they do distribute some securities to non-Japanese customers, but these are largely Japanese products which are in international demand. What they have not done is to try and compete head-on with British houses in their own institutional market.

"At this stage, we feel Japanese investors are ready to be educated about UK and continental European equities," says Nomura's M Tonomura. "In this arena our operations will be research-lead. We expect our main clients to be Japanese investors and non-UK institutions. So we see ourselves enlarging the London 'cake' rather than battling for a share of the existing market."

One day down the road, that approach might change. Then, with the full weight of their financial muscle behind them, Japanese companies would certainly become a force to be reckoned with in the City's own financial markets.

Peter Montagnon



Overseas interest in London is reflected in the Canary Wharf development, where the sponsoring consortium includes affiliates of Financière Crédit Suisse-First Boston and Morgan Stanley International.

SPLINTERS

- The Stock Exchange of 1872 saw dealing in shares for a Channel Tunnel. But they did not do well, because of the Franco-Prussian war. People remembered Wellington's earlier warning that such a tunnel would constitute a breach of Britain's defences.
- Dumbbell—refers to a fixed income portfolio strategy in which assets are concentrated only in very short or very long maturity issues (First Boston's Fixed Income Glossary).

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Continental firms

Only two join the gilts scramble

CONTINENTAL BANKS with international ambitions have to expand in London, since time-zone advantages have ensured its emergence as one of the three major financial centres in the world. But this does not mean that most continental banks wish to delve deeply into domestic securities business.

The securities that matter to the continental banks in London are Eurobonds and international equities. Meanwhile, traditional City business—gilt and UK shares dealing—has gone on largely unnoticed by them.

Indeed, to many the current brouhaha over changes in market-making of UK stocks looks distinctly overdone. "Big Bang will be one of the biggest disillusionments," said one German banker.

The much bigger New York and Tokyo stock markets attract more interest from the continental banks. The bulk of UK equities business is of no consequence to them, and most of the shares that matter are already being turned into international securities on the over-the-counter market.

The Americans, with a long history of investment and banking business in Britain, on the other hand, have a much more natural interest in the UK domestic equity market. They and the British houses snapped up most of the brokers and jobbers, while the continental banks were pondering the marginal benefits of such a move.

Gilts are a different matter, because they already have an international market and fit in more easily with Eurobond fixed interest business. But even here only two continental banks, both Swiss, have thought it worth while to join the primary dealership scramble.

This move has come more naturally to the Swiss than to the other continental banks, because they have long been expanding their investment banking activities outside Switzerland. In this, they have been backed by the reliable retail-client base they have established in their home market.

Union Bank of Switzerland made the greatest dent in the UK establishment of all the continental banks with its acquisition of brokers Phillips & Drew and the market maker Moulsdale. Phillips & Drew is a prominent player in the gilt market, as well as accounting for at least 4 per cent of the UK equity market. It is well versed in placing stocks internationally.

The acquisition was a costly commitment, but to Union Bank of Switzerland probably more a matter of necessity than of choice. It has universal banking ambitions, but has fallen behind its rival, Credit Suisse, in the Eurobond market. Advancement by acquisition rather than internal growth was the only solution.

Credit Suisse, on the other hand, had already established a seemingly unassailable pre-eminence in the Eurobond market after joining up with US bank First Boston. Its venture into the UK market was more of an optional sideline, and it bought only the small gilt broker Buckmaster & Moore.

Some of the German banks have international ambitions to match the Swiss, but none has bought a UK broker or a jobber.

The German banks' history of investment banking is shorter than the Swiss. They are highly cautious, averse to expansion by acquisition, and they do not yet feel threatened by foreign competition in their domination of banking at home. Their strategic thinking is single-minded and their ambitions in London focus on the Eurobond market.

Deutsche Bank, the biggest German bank, has moved its non-Deutsche Mark Eurobond syndication department to London, and now divides its Eurobond corporate finance activities between London and Frankfurt.

But it has made no attempt to delve into the UK establishment. It bought a 5 per cent stake in merchant bank Morgan Grenfell in 1985, but this was going cheap ahead of the flotation.

This established no more than a co-operative relationship, chiefly in the international capital markets field. Neither bank is committed to ask the other into its Eurobond deals.

None of the French banks has sought to become a primary dealer in gilts, although they have bought into the UK equity market. On the face of things, this is surprising since they have been nationalised for the last four years and have developed something of the character of the British clearers.

But under the new Rightist regime in France they are changing their spots fast. They are being privatised and threatened with foreign competition at home. They are determined to make their mark on international investment banking, and can only increase their clients base by means of acquisition.

Under the rightist regime of Mr Jacques Chirac, French banks are being privatised and threatened with competition at home. Determined to make their mark on international investment banking, they can only increase their client base by acquisition.

Banque Paribas, which will be the first of the banks to be denationalised, has always been the most forceful of them. Recently recovered from its costly divorce in 1984 from Wall Street broker Becker, it has not only moved its Eurbond business to London but acquired the stockbroker Quilter Goodison, gaining a role in the post-Big Bang equity market.

Banque Paribas explains that Quilter Goodison's retail distribution network is a natural addition to the client base it has already established in Switzerland, Belgium, Holland and Luxembourg, and should be helpful in Paribas' drive into the international equities business. Since half of Quilter Goodison's business is for retail clients, it is less vulnerable than other brokers to the onslaught of negotiable commissions.

Meanwhile, Credit Commercial de France, the largest nationalised French banking group, has also become involved in the UK equity market, though on a smaller scale. It has taken an 80 per cent stake in the institutional equity, research and corporate finance business of the small equities stockbroker Laurence, Prust.

Societe Generale's interest in the equity market is a consequence of its long association with brokers Strauss Turnbull in bonds business, rather than the result of a deliberate drive to make its mark in that area. Societe Generale has a 29.9 per cent stake in Strauss Turnbull, matched by Hambros Bank's similarly sized interest.

There are other European banks, such as Banque Bruxelles Lambert and Girozentrale Vienna, which have also invested in UK stockbrokers.

But a longer list could be made up of those conspicuously absent. Swiss Bank Corporation, for instance, and Banque Indosuez, are nowhere to be found in the new UK constellation.

And the German banks, although they do not rule out entering the fray at some later stage, are happy to wait and see how their Swiss and French counterparts get on. Meanwhile, they reckon they have bigger fish to fry in the Eurobond market. And for that market Big Bang with all its changes for domestic firms, is still just another working day.

Clare Pearson

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American firms

'Okay till the bears return'

THE AMERICANS have arrived in London's securities markets in force, with a great deal of capital and expertise behind them.

They already dominate the Eurobond market. But do they have real staying power? A surprising number of European financiers are sceptical, or perhaps just complacent.

American contenders can be crudely divided into three groups.

First, there is a handful of big commercial banks making use of their freedom from the domestic constraints of the Glass-Steagall Act to build an international securities business based in London. They include Citicorp, Chase Manhattan and Security Pacific.

Second, there are the big investment banks such as Goldman Sachs, Salomon, Morgan Stanley and Merrill Lynch, which are major global players and are joining the Stock Exchange in London.

Third, there are many smaller securities firms, which often have a significant London-based business in Eurobonds and American securities but are playing a waiting game as far as the Stock Exchange is concerned. In this category come Dean Witter, Kidder Peabody, E. F. Hutton and many more.

It is the second group that poses the greatest challenge to British firms. They have huge resources in the US—usually well over $1bn in equity capital—and proven expertise in the kind of integrated trading which most British firms will have to learn from scratch.

They are also targeting London as a focus for major expansion. Pru-Bache is investing something over $200m in its London operations; Salomon has just opened Europe's largest trading room, a cavernous chamber of 13,000 sq ft with around 300 trading positions; and both Morgan Stanley and First Boston are heavily involved in the Canary Wharf development scheme.

It looks an impressive commitment, but their European competitors are still wondering about how the American challenge will stand up to a bear market—at home as well as in Europe.

"The overheads of the American firms are right out of control in relation to their volumes," says one senior London merchant banker. "If you get a bear market the Americans are going to draw right back."

Swiss bankers, too, are liable to talk patronisingly about the American's gung-ho approach to expansion, only to slam on the brakes after a bad quarter or two for earnings per share.

And another London merchant banker queries the ability of the American firms to attract their top New York people to work in their overseas operations.

"New York will always be the centre of their world, where the power lies," he argues. "A location like London is only an outpost to an ambitious New Yorker. But to us it is the place where the major decisions are made."

Yet the recent announcement that one of Salomon's top bond experts, Mr Miles Slater, is to move to London to head up global bond trading could be an indication that attitudes are changing.

All the same, recently rumours have been eagerly circulated by British practitioners to the effect that at least one of the major US investment banks has privately told its top staff that it will pull out of London if a Labour government comes to power after the next general election.

That must be an exaggeration, but there would certainly be a tax threat if a Labour chancellor were to impose income taxes at 70 or 80 per cent, especially at a time when the highest rate of tax in the US is likely to be cut to around 28 per cent. Even the present 60 per cent top rate in the UK could pose problems in this respect, which it did not when the highest American rate was 50 per cent or more.

Until now, some of the American securities firms have made it their practice to equalise the after-tax incomes of their senior personnel wherever they have been posted—but this could become a prohibitively expensive exercise and threaten their competitiveness in Europe.

Of course, it can be argued that it will not be just the Americans who will be leaving London if top income tax rates go back to where they were in the late 1970s (when Americans and other foreigners, incidentally, were protected by tax privileges that have since been abandoned). A lot of the top British securities market men would be looking for postings overseas, too.

And it is clearly wrong to dismiss the American firms as fly-by-nights. Merrill Lynch, to take just one example, has been in London for 25 years, and now has 1,000 people in the City. It obviously intends to stay. Morgan Stanley and Salomon have 500 to 600 people each, and have been expanding fast.

Arguably, however, the American commercial banks are in a rather more vulnerable position. They have had to buy their way into London securities market because they lack the investment banks' home-grown expertise on Wall Street to draw on and transfer across the Atlantic, and they do not always enjoy big domesic profits.

Already the troubled Bank of America has had to abandon its plan to set up in London as a gilt-edged market maker; and the American banking scene is unstable enough to pose a general threat to the non-core operations of the major US commercial banks.

The commercial banks face the worst of the culture clashes of the new markets, with rigid organisational structures and centralised policy making tending to alienate volatile traders and analysts used to working within small partnerships.

As for the third category of American firm, the smaller or less committed securities houses—which are sitting on the sidelines, their options remain open. They have been unwilling to plunge in and buy existing London stock market firms, which would mean paying large amounts of goodwill for a job-lot of good, bad and indifferent executives (of which the best would probably be poached away by rival operations).

But it is now becoming rather cheap to enter the London Stock Exchange. The entry fee is minimal (there is no question of having to buy a hugely expensive seat as in Tokyo), and when the post-Big Bang shakeout begins, which could happen within a few months, good traders and salesmen could become reasonably cheap too.

For the rather more ambitious in bonds, the Bank of England will be opening up the gilt-edged market makers' list agan in a year's time; and Drexel Burnham Lambert (which has now joined the London exchange, and will be making markets, at least on a modest scale, in UK equities) is just one of the American houses to be indicating a second round interest in gilts.

The domestic markets are of *only* limited interest to most of the US securities groups, however. They are in London *primarily* to trade international scurities, though these will include 50 or so of the top UK equities.

A number of them are also concerned with gilt-edged *which, suitably hedged against* the currency risk, represent a highly sophisticated and liquid bond market whch could be of great interest to the rapidly growing band of global bond *investors.*

They are also keen to exploit the technical expertise they have developed in the US. This includes developments like securitisation of the mortgage market and activities grouped together under the heading of "programme trading," which covers anything from the fixed price purchase and liquidation of large portfolios to the remodelling of funds in line with index proportions, to arbitrage between the cash market and stock index futures.

However, the Americans have deliberately adoptd a low-key *approach. They are anxious to* show that they can be good citizens; and one of their number, *Mr Archibald Cox, of* Morgan Stanley, has been appointed to Britain's new regulatory *body, the Securities and* Investments Board.

Typically, the American firms are moving only very slowly and carefully into domestic activities. Indeed, Morgan Stanley only announced as recently as late September that it had finally decided to join the London Stock Exchange. The US firms are keen to avoid creating any domestic resentment which might threaten their international objectives.

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Barry Riley

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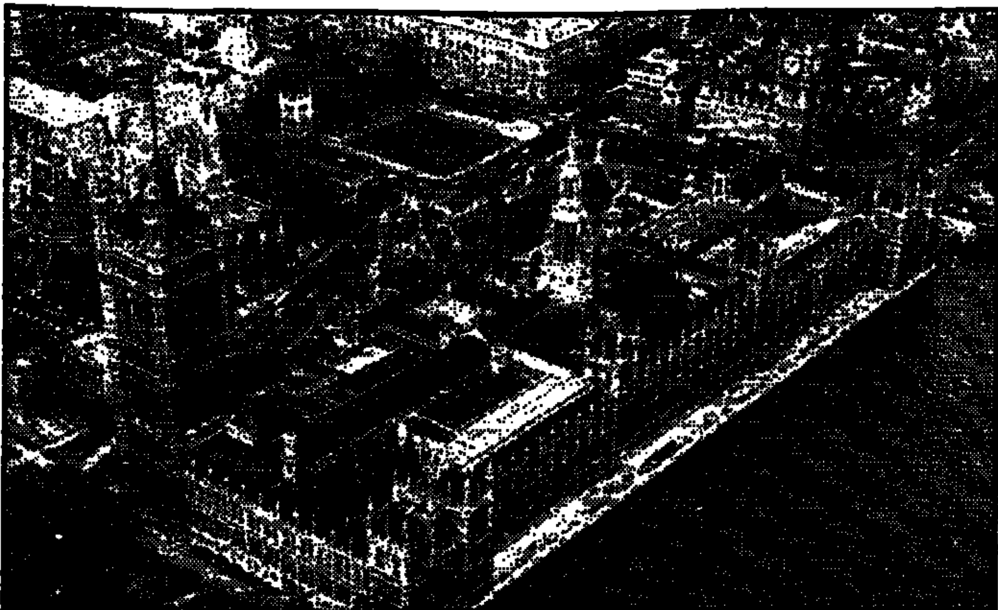
The blast of Big Bang will be felt far from the City . . . FT writers assess the reaction of politicians, of the UK's second financial centre, and of a market that could lose business to London.



The Palace of Westminster . . . where some Conservatives fear that deregulation could produce casualties and controversy damaging to the Government.

Veteran Tories fear the spectre of the 1970s

WESTMINSTER

THE AFFAIRS of the City generally only matter politically when something goes wrong. The knowledge, and interest, of most MPs in financial matters is limited.

Indeed, most members, including Opposition party spokesmen only react when there is a headline producing scandal of some kind—a speculator collapse, or alleged fraud or wrongdoing, as in the Johnson Matthey Bank and Lloyds affairs.

Yet that does not mean complacency or a lack of concern among those who are interested, particularly on the Conservative side. There are considerable worries now that the deregulation of the securities market could produce casualties and controversy which could be politically damaging to the Government.

But this group is limited to, at most, a couple of dozen, mainly Tory, MPs. This may seem surprising, in view of the increased number of directorships held by backbenchers. But most of these are in commercial or consultancy companies, and relatively few MPs have recent or direct knowledge of stockbroking, banking or other City institutions. Notable exceptions include Mr Geoffrey Rippon, the chairman of Britannia Arrow, and Sir Peter Tapsell, of brokers James Capel.

Moreover, the often-quoted figure of more than 50 Lloyd's "names" in the Commons (all but one, Tory) is misleading. Almost all are solely underwriting members and thus investors, rather than active participants, in the insurance market.

City matters are generally discussed on the floor of the Commons only a handful of times a year—in thinly attended debates and during Trade and Industry Questions. The past year, has, of course, been an exception with the long-running consideration of the Financial Services Bill, but even that has only attracted the interest of the familiar small group. Both the Second Reading debate and the later Report stage attracted no more than 20 or 30 MPs for almost all the time.

Indeed, during the opening speeches of the Second Reading debate there were only four Labour MPs participating, including two on the front bench. Labour has had a particular problem in this area since it has hardly any MPs who keep up with City matters, and has had to rely almost exclusively on the formidable skill and knowledge of Mr Bryan Gould.

The political debate on deregulation initially turned on the propriety of the deal between the Government and the Stock Exchange in summer 1983 blocking the legal action by the Office of Fair Trading on rectrictive practices. But this issue was soon overtaken by the speed of the change in the structure of the securities market with the injection of outside capital into broking firms. So broader issues of regulation were quickly raised.

The Government's position was, and has broadly remained, that it is in the interest of the international competitiveness of the securities industry and of investors to retain self-regulation, but within a reorganised framework with limited statutory backing. The balance has shifted towards tighter regulation over the past three years, but the dislike of a US-style securities and exchange commission remains.

The Opposition case, as put by Mr Gould, is that the extent of the charges in securities markets mean that there should be an indepenent self-standing statutory regulatory body. Although a combination of Labour and rebel Tory MPs succeeded in strengthening the Bill during its Commons progress, he believes that this has not gone far enough, and Mr Gould has said that a future Labour government woud transform the Securities and Investment Board into a statutory organisation with more independence from the City than at present envisaged.

Some left-wing Labour MPs taken an even stronger view. Mr Brian Sedgemore and Mr Dennis Skinner, who have both taken a close interest in City affairs and scandals, have recently published a pamphlet—The City Big Bang 2000—warning that the changes may encourage financial institutions to exploit conflicts of interest at the expense of investors, and lead to increased power for a handful of big US and Japanese financial institutions.

A number of interested Tory MPs are already concerned that the Bill does not go far enough. In particular, Mr Tim Smith and Mr Anthony Nelson created a cross-party alliance with Mr Gould on the Bill's standing committee, which pushed through amendments giving explicit statutory regulation and extra powers of prosecution and investigation to the Securities and Investment Board.

There has also been concern about whether the disclosure requirements on the sale of life insurance are tough enough.

Some MPs are also worried about the splitting of responsibility for regulation between the Department of Trade and Industry, the Bank of England and the Treasury. This was shown over the JMB affair, when Mr Nigel Lawson, the Chancellor, had little choice but to accept the Bank's proposals for rescuing JMB and was not informed about some subsequent developments.

More generally, Tories are worried that in the upheavals of the next two years something may go wrong. Mr Rippon and Mr Peter Tapsell broadly share the view of Sir John Nott, the former trade secretary and chairman of Lazards, that, while self-regulation may be the most effective method of controlling markets, it will in practice founder politically in the near bear market.

There is the related issue of Lloyd's. Before the end of last year, there was considerable pressure for the insurance market to be included within the bill, in the light of the row over the departure of the former chief executive, Mr Ian Hay Davison, and the allegations of fraud and malpractice which surfaced then and were highlighted by Mr Sedgemore.

However, the Government took the sting out of the controversy with the announcement by Mr Michael Howard, the Undersecretary for Corporate and Consumer Affairs, of an inquiry under Sir Patrick Neill into the operations of the 1982 Act governing Lloyd's. This has kicked the ball into touch. There have also not been any further allegations of fraud.

But the controversy could easily arise again if there are further allegations, even though all those problems so far arose before the 1982 Act became law.

All these matters are hardly at the forefront of political debate, and were barely mentioned during the recent party conferences except by reference to the high salaries, and golden hellos, being paid in the City.

However, veteran ministers and Tory MPs well remember the experience of the early 1970s property and secondary banking room, which they believed seriously damaged the Conservative Party's image in the run-up to the 1974 elections.

Phrases like "the unacceptable face of capitalism," used by then prime minister, Mr Edward Heath, against Lonrho, were used against the government. The Conservative fear is that the same thing could happen again, however little control ministers actually have over what happens in fast-changing financial markets.

Peter Riddell

'Just like the Oklahoma land rush'

NEW YORK

A FEW weeks ago, Mr Peter Rawlinson, a partner in the London brokerage firm of Schweder, Miller & Company, slipped quietly into the history books, when The New York Times featured a prominent photograph of bowler-hatted Mr Rawlinson — plus umbrella — on his way to work.

Mr Rawlinson was accused of no crime except that he was going to work early. And The New York Times, which takes itself very seriously, felt that this was a sufficiently noteworthy event for a British stockbroker, that Mr Rawlinson should be put on its front page, alongside an article which notes that Phillips & Drew, the London broker, has begun serving its workers breakfast to compensate them for arriving early, like Mr Rawlinson." It's a good proper English breakfast — eggs, bacon, sausages, mushrooms, the works," Phillips & Drew's Paul Neild told The New York Times; and he justified his recommendation by noting, with apparent pride: "Besides, we start at 8 am now."

The paper regaled its readers with tales of how the "new, hot traders" in London are likely to be thirtyish, a bit cheeky and more interested in piling up commissions than meeting club cronies for a late afternoon brandy at Boodle's or White's."

For New York's financial community, which often starts work at 4 am, the news of London's Big Bang is being treated with a mixture of respect and hilarity. It is not going to shake the foundations of the world's financial capital, yet it cannot be ignored.

The New York Times article is one of several recent pieces in the US press, ranging from "Thunder on Throgmorton Street" to "The Yanks muscle in on the City," which have tried to explain to US businessman the intricacies of Big Bang.

London firms, such as Barclays Bank, have been spreading the word through seminars in New York on the implications of the Big Bang for US institutional investors. But, so far, the general impression on Wall Street is that, while the Big Bang in London is making a lot of noise, it is unlikely seriously to damage New York's position in the international capital markets.

Wall Street is split in its view of the importance of Big Bang. Mr Clint Kendrick, who is president of Alliance Capital Management, is responsible for managing $30bn of investment funds, describes the event as "extremely significant," and says that it has "vast implications for New York."

Manhattan . . . where most of the interest is centred on big Wall Street brokerage houses and investment banks that have committed capital to London.

Mr Byron Wien, one of Morgan Stanley's New York-based investment strategists, says that he has been "brainwashed" into thinking that this is a major step to make sure that London maintains its position as one of the world's leading financial centres. "It did not look to me like London was having any trouble before the Big Bang, so I do not know why it was needed," says Mr Wien, who argues that it is "a kind of parochial thing."

Mr Eliot Janeway, who writes a regular investment newsletter from his elegant townhouse on New York's upper east side, says that "no one here gives a damn about what is happening in London." The Big Bang is "playing to a great hush, as they say on Broadway," notes Mr Janeway.

Mr Janeway is more gloomy than most about the stock market, and believes that most of Wall Street's money managers are so preoccupied with the stock market's short-term performance, which he likens to a "loose cannon on a wet deck in a stormy sea," that they are not paying attention to what is happening in London.

Whilst Mr Janeway is more extreme in his views than most, it is clear that, for many of the major New York money managers, ranging from Dreyfus, the mutual giant, to Tia/Cref, one of the biggest US pension funds, their knowledge and understanding of the changes under way in the London financial markets, is limited. Although the big US institutional investors have been venturing abroad over the last few years, most of them still view the investment world through what happens on Wall Street. They are not particularly concerned about what is happening in London.

Mr Jeffrey Schaefer, the research director of the Securities Industry Association (SIA), is more diplomatic about the Big Bang than some of the SIA's members, and notes that "most people in the US securities business sense something important is happening in London."

However, most of the New York interest in London's Big Bang is centred on the big Wall Street brokerage houses and investment banking firms, which have been committing substantial chunks of capital to London. As The New York Times noted, the run-up to Big Bang day has touched off a stampede akin to the Oklahoma land rush.

"Never before has so much capital and such high-powered talent been poured into a marketplace in such a short period," says the paper, which notes that Salomon Brothers' new London trading room is more than twice as large as its famous New York counterpart and resembles "NASA's command centre at the time of a space launching."

Outside of the big firms with a major London presence, interest in Big Bang is limited to institutional investors that have made a point of going overseas, such as Mr Kendrick's Alliance Capital Management, which is part of the giant Equitable Life.

Mr Kendrick, who admits that his views might be coloured by the fact that he was based in London until recently, says the Big Bang and the London Stock Exchange's recent decision to merge with the International Securities Regulatory Organisation (Isro) have "vast implications" for New York.

He believes that the changes under way in London will have a "critical impact" on future trading in global securities markets. "There is no way that what develops over the next five years in London is not going to have an impact on Tokyo and New York," says Mr Kendrick, adding that "a healthy financial community in London is extremely important for the world's financial markets."

Mr Kendrick is more enthusiastic than many of his fellow New York money managers about the implications of Big Bang. The majority view among New York money managers is that the event is important for London and the UK, but has little relevance to the rest of the global financial community.

Will London take business away from New York? Some marginal business in areas like internationally-traded equities and short sales could flow to London, but on balance New York is not bracing itself for a mass exodus of its traditional business following the reforms in the London market.

Is the Big Bang going to be an overnight wonder? New York money managers are reserving their judgment, but there is a sneaking feeling that perhaps London is suffering from New York's traditional tendency to over-dramatise local events. "Every time you see this much publicity you have a tendency to say it is being overdone," says Morgan Stanley's Byron Wien.

Will the Americans takeover the London financial markets? There is a feeling akin to the US invasion of the tiny island of Grenada as Wall Street watches the massed battalions of its finest investment banks prepare to do battle in London. "It is very naive of American investors to think that they can bully their way into London strictly on their willingness to commit capital," says Sam Hunter, a senior vice-president of Drexel Burnham. Nevertheless, Wall Street still puts a lot of faith in its superior fire-power and is not mentally prepared for casualties.

William Hall

Small independents should find niches

EDINBURGH

"BIG BANG is just a symbol. I hope and believe that Scots have seen past that symbol to what is really happening, and placed themselves to make the most of it"

This is the view of Professor Jack Shaw, who recently ceased to be senior partner at the Edinburgh office of Deloitte, Haskins and Sells to become director of Scottish Financial Enterprise, a company whose aim is to promote and expand the Scottish financial community.

According to Professor Shaw, the great change that has taken place in financial markets in the past few years is that they are now demand-led, with the customer specifying his financial requirements, rather than the producers of financial services dictating what is available.

Scotland's collection of merchant banks, fund managers, stockbrokers and investing institutions are, he believes, well placed to function in such a situation because they are, on the whole, relatively small and enjoy independence of ownership and of thought. They should therefore be able to exploit and develop niches in the new financial markets.

A cynic might say that the Scottish financial institutions do not have much choice but to develop along those lines because, despite the impressive growth of Edinburgh as a financial centre in the past two decades — with important offshoots in Glasgow, Perth and Dundee — it has not managed to produce one very big player to take its place alongside the new financial services conglomerates in the City of London.

The only Scottish institution which comes near to that goal is the Royal Bank of Scotland, the country'sbiggest clearing bank, which has followed the well-trodden path of buying a merchant bank, (Charterhouse Japhet), and a stockbroker, (Tilneys of Liverpool). Its Edinburgh rival, the Bank of Scotland, has set itself firmly against pursuing that course. Other, smaller institutions like Noble Grossart, the merchant bank, show every sign of being content to remain on the scale they currrently are.

Several of the leading Scottish stockbrokers and jobbers have been taken over by larger groups. Hill Samuel has bought Wood Mackenzie of Edinburgh; Hoare Govett has acquired Campbell Neill of Glasgow; Wishart Brodie of Edinburgh has become part of Laing and Cruikshank from London; Aitken Campbell, one of Scotland's two firms of jobbers, is now 50.1 per cent owned by Union Discount.

But other financial services companies are pursuing different strategies. The Glasgow broker, Penney Easton, has sold its back office operation to Broker Services Ltd, a joint venture between Barclays Bank and the computer company NMW which will supply back-office services to other brokers as well as Penney Easton, leaving Penney Easton to concentrate its primary task of advising clients.

The Edinburgh brokers Bell Lawrie are taking on the investment management business of Chiene and Tait, *a firm of accountants in the Scottish capital. Other co-operative ventures are being formed with specific aims.

For many people, the core of the Scottish financial community lies in its fund managers, which manage over £40bn worth of clients' funds. But some observers question whether the fund managers have done enough to protect themselves against potential takeovers. "There could be a tremendous shakeout," says one member of the Edinburgh financial establishment.

Charlotte Square, at the financial heart of Edinburgh . . . where remoteness from London has made the Scots less inclined to follow fashion.

For Prof Shaw, the funds represent the type of business in which Scotland can continue to specialise successfully in the new climate, drawing on its tradition of custodianship. But, like others, he believes that the financial community must now market itself more aggressively. A more relaxed approach was possible "when the producer of financial services was dominant, but now it is the customer who is dominant," he says.

"Respect for the property of others is very deep in Scotland," he says. There was no secondary banking crisis in Scotland, and no Johnson Matthey crash either. The relative remoteness of Scotland from London made the Scots less inclined to follow financial fashions too blindly.

On the other hand, it is widely accepted that the cautious approach meant that Scotland missed opportunities in the past. In the mid-1970s the Scottish financial community failed to get its hands on more than a small portion of the funds flowing into Scotland to develop North Sea oil, nor of the vast sums for investment held by the newly created regional councils in local government.

Prof Shaw points out that Scotland failed to create its own financial market at that time, and he also chides the big Scottish life assurance offices for being slow to get into unit trusts. The Scottish clearing banks, he says, were late to recognise the needs for corporate financial advice and corporate financial management.

On the other hand, there have been the successes of Noble Grossart and the British Linen Bank in merchant banking, and those of Ivory and Sime in fund management. The Scottish clearing banks have been pioneers of electronic developments in customer services.

A good example of a Scottish financial institution which is going against the conventional wisdom on Big Bang and which is convinced that its caution will be rewarded is the Bank of Scotland. Mr Bruce Pattullo, the treasurer and chief executive, says firmly: "I believe a lot of Big Bang will end up in tears in a bear market."

Mr Pattullo was unwilling to take on the severe management problems which he believed would be created by taking over a large firm of stockbrokers, and the dangers of the bank losing control of the operation.

But Big Bang has produced an opportunity for the Bank of Scotland which might not have been anticipated at the start of the shake-up in the City of the past two years. It has become one of the institutions which are to carry out lead underwriting for Cazenove, the London brokers who have also chosen not to make a conventional response to Big Bang.

James Buxton

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All those who use the securities markets, or who provide services to the securities firms, will need to assess the consequences. They may need to adapt their methods of operation if they are to obtain full benefits from the new-style market place.

Listed Companies

Finance directors in uncharted waters

AT FIRST sight, the revolution in the City should be good news for listed companies. After all, the Stock Exchange's original purpose was to provide for industry; and if increased competition between City firms means that capital is cheaper and easier to raise, finance directors should be overjoyed.

But there are drawbacks, too, in the changes that are taking place and which have already begun in the run up to the Big Bang. And City advisers do not seem to have been very good at focusing their clients' attention on what it all means.

In theory, the greater competition between brokers, now that fixed dealing commissions have been abandoned, should mean that investors will be more ready to deal and that interest in shares will increase. That ought to work through to a more liquid market in shares, itself an influence on companies' ability to increase their equity. Under the new arrangements, though, shares will be divided into groups called alpha stocks, beta stocks and gamma stocks.

Only the 60 companies in the alpha stock section will find that there is a large number of market makers dealing in their shares. Those in the gamma section may discover that their shares become less easily tradable under the new system, as brokers are only prepared to make markets where they can make a profit. In some cases companies' advisers will ensure that a market is maintained in their shares, a service that Cazenove, for example, has stressed in its efforts to win more corporate clients.

At the same time, the increasing numbers of players in the market, as foreign-owned firms have entered either by buying into UK brokers or on their own, should introduce more capital to the City. Some borrowers have already found how willing these new lenders are to arrange loans and buy companies' debt issues. Now they will see if the new entrants are as ready to arrange equity issues, and distribute shares to investors in other countries. One of the main hopes of finance directors is that the increasing internationalisation of the London market will bring such benefits.

Further, the greater competition among City firms to win such businesses should bring down the cost of raising equity capital as underwriting commissions, for example, reduce. The availability of finance to back takeover bids as well as capital for newcomers to the market should improve even more.

Added to that, the increased pressure on brokers to win new business, as the profits they make from traditional broking business dwindles, should result in their giving clients a better service. That at least is the theory. But some finance directors have their doubts.

Mr Daniel Hodson, finance director of Unigate ... hoping that the new regime might revive the dormant corporate debt market

Mr Daniel Hodson, of Unigate, argues that, in the past, bankers and brokers have been more interested in finding clients to use the products they have devised rather than tailoring the products to the clients' real needs. He cites the example of the corporate debt market, which has been dormant for years despite a demonstrated desire by companies to issue fixed rate securities. Perhaps, when the new regime settles down, he suggests, some of the disheartened primary gilt-edged dealers might turn their attention to corporate debt.

Another concern is that of relationships between companies and their City advisers. Until now, most companies have had a fairly permanent link to a stockbroker and a merchant bank. But with many stockbrokers becoming part of larger financial groups, companies are beginning to find that their particular bank has joined forces with a broker other than their own. That may cause problems in future. For instance, some banks will want to give business, for example a placing related to a corporate finance deal, to their in-house broker. A company which insists on using its familiar broker as well could be adding to its costs.

At the same time, the groupings of banks an brokers is more likely to raise conflicts between two different clients. For example, both side of a takeover bid might have been represented by one or other element of a new financial conglomerate. One company might find that, just when it needs its adviser most, it must go out and find a new one.

Also, there must be some nervousness about the strength of the so-called Chinese walls between different parts of financial conglomerates, as different clients' interests are in conflict. Even in a simple case, such as a broker advising investment clients as well as acting for a corporate client, there can be friction. For instance, BOC Group recently decided to change its broker from W. Greenwell to Cazenove. A number of reasons were behind the move, but one was that the Greenwell analyst had felt a duty to investment clients to be critical about a part of BOC's business.

Such considerations are likely to persuade more companies to choose a financial adviser for a particular transaction, looking for the one that provides the best service at the right price. Some may be tempted to switch to many of the US and other foreign firms which are looking for business in the UK. But the loss of a firm relationship is something that many companies will regret.

Long-standing banking and broking relationships have given finance directors a source of advice from people who fully understand their business needs without having them explained again. A switch to the style of the US markets, where companies change advisers for the sake of saving a few basis points on a deal, is not without its drawbacks.

There will also be a concern among companies to choose advisers whose own future is secure. If price-cutting is taking place, there must be an expectation that some players in the over-crowded market will eventually bow out.

Finance directors are largely being left to work their way through this maze alone. Surveys suggest that, apart from the top companies, few have much idea what is going on in the City, and have been given little guidance by their advisers. Many do not even know whether, or with whom, their brokers and bankers have merged. And hardly any could name links forged between firms other than their own. The Big Bang could give them a nasty jolt.

Maggie Urry

Fund Managers

Vigilance will bring benefits

AFTER STOCKBROKERS and marketmakers, Big Bang will probably have a bigger impact on professional fund managers than on any other group.

The benefits of deregulation, for them, should be a better quality and better-targeted service from stockbrokers and marketmakers, at a lower cost. But much greater vigilance on their part will be necessary to extract those benefits and ensure that they are getting value for money.

The fund managers have already been forced to review all their operations in a more critical light, to build up some departments and run down others, to introduce new technology and to shake up their traditional relationships with stockbrokers.

The best example of the change in traditional relationships is the establishment by many investment management houses of a central in-house dealing desk. Previously, fund managers used to claim that, in order to motivate a stockbroker, to give him job satisfaction and to cement relationships, it was preferable to allow him to come up with an idea, persuade the fund manager to follow it up, and then to execute the order on his behalf for which he would be paid commission.

However, that link is now being broken by the dealing desks, which will be expected to seek out the finest terms for executing any particular transaction. The dealers will have to compare the costs of dealing through an agency broker, who charges commission but possibly obtains a better price for buying or selling shares, with the costs of going directly to the marketmaker, whose remuneration will come entirely out of the bid/offer spread.

Further complications will be introduced by Value Added Tax (payable on commissions, but not on bid/offer spreads) and by the need to give adequate remuneration to brokers whose analysts and salesmen provide them with good ideas and research material. Most investment management houses that have already set up dealing desks review the allocation of commission to different brokers and compare it with the usefulness of their advice perhaps only once every three months. They then tell the dealers broadly how much should be allocated to each broker over the next period.

In addition to dealing desks, several investment management houses, for example Prudential Portfolio Managers, are also building up their research teams so that they can cut back on their reliance on stockbrokers' reports. This process is one of the factors that has been bidding up the salaries of analysts and encouraging more job-changing.

Some believe that those brokers who form part of a dual capacity firm alongside a marketmaker will no longer be able to give independent advice. They will tone down or highlight their comments according to the pressures put on them by their market-making partners, the sceptics say. In addition, the marketmakers are likely to be given the research recommendations of their brokers before the clients which may force the price up or down against them before they can deal.

The US experience suggests that these fears are exaggerated, and that any broker who is seen to be giving recommendations that favour his marketmakers at the expense of his clients will soon find himself without clients. In any case, fund managers have long been used to handling the conflicts of interest that arose under the old single capacity system, in particular the brokers who were too enthusiastic about making recommendations in order to generate commissions.

And even those investment managers that are building up an in-house research capability agree that they will continue to use the services of some stockbroking analysts. They will be used as a further source of ideas, as a check against in-house ideas and the risks of "group-think," and to cover the companies and sectors the in-house team is unable to cover.

It seems unlikely, however, that fund managers will be prepared to pay explicit annual fees for stockbrokers' research. So far, only one large investing institution, the Prudential, has said it would prefer to remunerate stockbrokers in this form rather than by paying them commissions.

The indirect method of payment through commissions is a clumsy way of operating, particularly if all transactions are routed through a dealing desk. However, pure research houses that rely exclusively on fees have a bad historical record. Virtually all the independent research houses on Wall Street, including those consistently voted top of their sectors, collapsed or were taken over within a few years of the Mayday deregulation of 1975. There main difficulty was that, whereas conventional brokers were remunerated through commissions which the client paid, they had to be remunerated through fees paid by the investment manager.

In the longer term, however, the analogy with Wall Street in the mid-1970s may be misleading. UK pension fund consultants and trustees are becoming much more conscious of how unnecessary dealing and commission payments erode investment performance. They are now more critical of poor investment performance, and willing to dismiss managers whose record is poor. A specialist fee-charging research house that is able to make practical recommendations, which make their clients money over the short term, may well be able to develop a niche in the market, particularly if it can appeal to the consultants and trustees over the heads of the investment managers.

What is certain is that investment managers will have to cut back much more forcefully than in the past the list of stockbroking analysts whose research they rely on. This will allow them to target a more limited amount of commission on the brokers whose recommendations they believe are actually adding value. Some investment houses have recently started monitoring all a stockbroker's recommendations against subsequent share price movements and recording them on computer.

How much more limited that flow of commission will be is difficult to estimate. Most stockbroking firms have left it to the latest possible moment to open negotiations with their chief investment clients on the rate of commissions they will charge after Big Bang. In most negotiations, the Stock Exchange's minimum equity commissions scale is the starting point, and clients are expected to negotiate a discount. The discount is likely to be somewhere between 15 and 50 per cent, depending on the relationship and bargaining strength of the two parties. This would imply an average rate of stockbroking commisions in equities of around 0.25 per cent of turnover.

Another factor that will enable fund managers to negotiate big cuts in commission rates will be the ending of most forms of "soft" rebates of commissions, in the form of Reuters screens or entertainment, which is paid for by the stockbroker but used by his clients.

Under the new regulatory framework laid down by the Financial Services Bill, investment management houses will have to join a self-regulatory body. And most are expected to join the Investment Management Regulatory Organisation (IMRO). Its chief executive, Mr John Morgan, who formerly ran the British Rail pension fund, has already made clear that it intends to take a tough line against such a use of fringe benefits.

Clive Wolman

Greenwell Montagu and the new markets

From the 27th October, the UK securities markets are open to all-comers. Greenwell Montagu will be taking full advantage of the opportunity to extend its services to clients.

What this means, in practice, is matching our customers' needs with what the newly de-regulated markets can offer.

For a start, in April of this year, Greenwell became a wholly owned subsidiary of Samuel Montagu – and so able to benefit from the many strengths of the Midland Bank Group network.

We have invested considerable sums in new computer and telecommunications technology – with new dealing systems and trading rooms that enable us to serve our clients faster and more efficiently.

Most importantly, from October 27th we will operate as three businesses, each wholly owned by Samuel Montagu and each geared to the needs of its clients.

Greenwell Montagu Gilt-Edged

We will make markets in all British Government Securities, as well as the full range of Sterling money market instruments.

We will also take secured and unsecured deposits from the banking system.

The pre-eminent position of the firm in gilts will be supported, as ever, by sustained and in-depth research and economic analysis.

Greenwell Montagu Securities

We will offer a complete marketmaking, distribution and research service for our institutional clients – concentrating on some 400 UK equities and a wide range of major international stocks.

These services will complement the corporate broking service we offer to companies – both existing and future corporate clients.

Greenwell Montagu Stockbrokers

We will offer fund management, share dealing and financial advisory services to our many thousands of private clients. We will also provide a Stock Exchange execution service for institutions wishing to deal on an agency basis.

Our new structure will help us to ensure that it is our clients' needs that remain pre-eminent in the securities markets after October 27th.

As an existing or potential client, we invite you to find out more by contacting us at any of our addresses. Overseas, you can get in touch through our offices in New York and Tokyo. Away from London, we have offices in Lymington and Hereford – and now also in Birmingham, through our subsidiary Smith Keen Cutler.

At Greenwell Montagu, matching clients with investments is at the heart of our business. We look forward to doing business with you.

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Portfolio Management Charges

Time for fine tuning

THE BIG BANG reforms were supposed to mean the end of the Stock Exchange's restrictive practices and the high charges it imposed on its customers, in particular on pension funds and other large institutional investors.

And indeed, the abandonment by the Stock Exchange of its minimum commissions cartel and its other restrictive practices will lead to sharp cuts in dealing costs.

On a superficial view, it now appears that a large part of those savings to pension funds will be clawed back by the higher charges that the City's professional investment managers will be imposing on their clients. Some merchant banks have already raised their charging rates by more than 50 per cent.

The reality is rather different. In most cases, what appears as an increase in charges is really a reduction. It is just that charges which were formerly hidden from the client have now become explicit. One of the chief benefits of Big Bang for investment clients is that their investment managers' fees will become more transparent.

The main hidden charge imposed by fund managers on their clients, which will now disappear, is that of "continuation." Ironically, this method of charging was made possible in the 1970s as a result of a concession made by the Stock Exchange in response to pressure from the investment institutions.

The Exchange agreed to relax some of the rigours of its minimum commissions scale by allowing investors to bundle together all the trades they have done in a particular security over a three-month period and only pay the commission rate applicable to a single transaction.

For example, the purchase of £100,000 worth of Glaxo shares would be subject to a minimum commission of 0.5 per cent. If a merchant bank carried out 20 such deals over the period for all its investment clients, it would only pay commission of 0.125 per cent.

So far, so good. But most investment managers failed to pass on the benefits to their clients. Instead they have issued their own contract notes to each of their clients charging them the commission they would have paid in isolation—and pocketed the difference for themselves. Some merchants have received as much in revenue from continuation as they have from explicit charges.

As well as containing an element of deceit—most pension fund trustees failed to appreciate what was happening—the practice of continuation distorted investment management in two other ways.

First, it gave an unfair advantage to the largest investment houses, particularly the merchant banks, at the expense of the smaller independents who were forced to charge more to make up for their lack of revenue from continuation.

Second, it encouraged investment managers to carry out more share transactions for their clients, and generate higher commissions, than was justified by the returns. This is confirmed by the poor investment performance of most pension funds over the past 10 to 15 years, which is well below what they would have achieved if they had invested passively in all the shares making up the FT-Actuaries All Share index incurring only the minimum necessary dealing costs.

As the measurements of investment performance have become more sophisticated and more widely used, pension fund trustees have become more critical and willing to switch managers or to divide a fund's assets between two or three competing managers. As a result, trustees have become more aware of continuation and other hidden charges and benefits that are not passed on to clients.

These include keeping the interest on a fund's overnight cash balances and requiring stockbrokers to make large interest-free deposits with the banking arm of a fund management group as a condition for receiving commission.

It is therefore likely that competitive pressures would gradually have forced fund managers to pass on the benefits of continuation, or to offset them against charges. But Big Bang has accelerated the process.

The smaller pension fund clients should benefit most from the change as they paid most in "phoney" commission to their investment managers because of their smaller bargains. But they will now find themselves paying higher charges, which are traditionally expressed as a percentage of assets under management, whereas the largest pension funds will be able to negotiate much finer terms.

The recent appointment of new outside investment managers for the giant £4.5bn British Rail pension fund contract has set new standards in demonstrating how far it is possible to squeeze the management fees on large contracts.

The average fee British Rail will be paying to the six investment managers, who have been awarded between £250m and £1.5bn of assets each, is about 0.1 per cent per year with no hidden charges permitted. This excludes the property fund where the charges are substantially higher.

However, there will be some pension fund clients who will continue to prefer their charges to be partly disguised in one form or another. One example is the local authority pension funds where politically active but financially ill-informed committees argue ceaselessly about fund managers' explicit charges but pay no attention to stockbrokers' commissions.

For this reason, stockbrokers, who make no explicit charges, have been widely used as the managers of local authority funds. And that practice is likely to continue at least until those local authority committees catch on.

For similar reasons, some merchant banks will continue to offer lower charges, if they can retain some of the benefits of being able to bundle together the bargains of several clients to negotiate finer terms when dealing for them in the market.

Another area which is likely to remain murky is that of payments for research into stocks, traditionally carried out by broking analysts. The most logical and fairest method of paying for that research would be through a fee from fund manager to analyst. But such a fee would have to be paid out of the fund manager's charges. However, if the stockbroker is remunerated in the form of commission, that is paid for by the client in a form which is difficult for him to detect.

The investment managers' self-regulatory organisation (IMRO), which has been set up as part of the framework of the Financial Services Bill, has said it will be looking at these hidden forms of payment and benefit flowing between fund manager and stockbroker. And most of the cruder types of backhanders will be prohibited by the rules of the Securities and Investments Board, the overseeing City regulatory organisation.

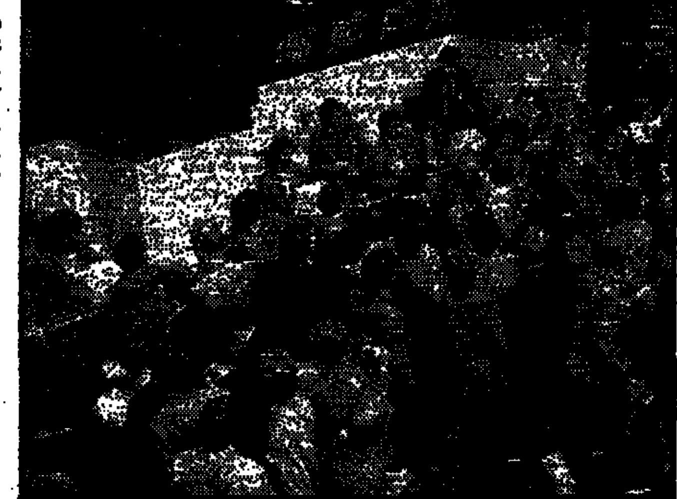
However, no general principle has been established that any costs and charges that investment firms impose on their clients must be done in the most transparent and direct way and one which will facilitate comparison with competing products. Without such a principle, many of the more complex and murky forms of remuneration for fund managers are likely to continue.

The one type of fund management operation that will become more competitive in the aftermath of Big Bang will be the passively managed index-matching funds which in any case have been steadily gaining market share over the last two years.

They will not have to pay high commissions for a stockbroking service which includes research and advice they do not need. The greater liquidity of the UK market, at least in larger stocks, will enable them to deal on much finer terms.

In the US, Wells Fargo, the largest passive manager, charges its largest clients with assets of around $1bn as little as 0.03 per cent of assets per year, which is only one-fifth of even the ultra-low charges negotiated by British Rail.

Clive Wolman



Increased automation will create more space under the dome of the Royal Exchange for Liffe.

Futures and Options

Liffe is ready for the clash of cultures

WHEN THE London International Financial Futures Exchange (Liffe) was born four years ago, it was almost unwittingly already part of the new City which emerges today with Big Bang.

It has no fixed commissions and no bar on acting as both principal and agent—both of which restrictions the Stock Exchange does away with today. Even more important, Liffe's membership represented a cross-section of City matters which had previously been rigidly separate. It included clearing and merchant banks, stockbrokers and stockjobbers, money brokers and discount houses, commodity traders and many foreign members.

Just such cross-sections have now been created in any one of the many financial conglomerates which have been formed ahead of Big Bang. Liffe's membership thus already has experience of the mingling—or clashes—of culture which take full effect across the City today.

For Liffe, Big Bang therefore occurred at birth. But this does not mean that it will be unaffected by the reform of the domestic securities markets. It is expecting a big increase, perhaps a doubling, in the volume of business in its futures and options contracts over the next year; and it has been preparing for this with an expansion of the contracts traded, as well as with plans for handling more business on the floor.

At the Stock Exchange, the flourishing traded options market is also expecting a substantial rise in turnover, and has been launching many new options.

Liffe's growth until this year was steady, but not spectacular. Some City institutions, and many major investors, have been slow to grasp the techniques of trading futures and the circumstances in which they might do so.

This year, there has been a sharp rise in Liffe's turnover, partly due to extremely volatile interest rates, currencies and stock prices. Futures and options thrive on volatility, and on rising prices in the markets which underline them.

Futures can be used to protect, or hedge, a position in the underlying market, transferring the risk of that position on to someone else and thus acting as a form of insurance.

If you hold gilt-edged securities, for example, and fear a price fall but do not wish to liquidate the position, you can hedge it by selling a futures contract or buying a "put" option, which gives the right to sell at a specified price.

Futures and options can conversely be used as speculative instruments, offering the chance effectively to bet on a price movement. Holders of futures and options positions put up a proportion of the value of the contracts, and that payment is adjusted daily according to the market value of the contracts.

While most brokers and bankers now view the noisy pell-mell of the Liffe floor as an integral part of their trading and of the services they provide to customers, use of Liffe by institutional investors and corporate treasurers is still low.

With Big Bang, there are strong reasons for believing that many contracts will see increased business, and consequently develop a far more liquid marketplace.

Instead of the handful of jobbers who have, until now, taken position risk in the gilt-edged and equity markets, there will from today be a host of marketmakers. In the gilts market, there are 27 market-making firms competing fiercely for business which has traditionally been dominated by two, and more recently three, jobbers.

All but one of the firms are Liffe members. They are expected to make increasing use of Liffe's gilt contracts. Liffe trades futures on both long and short gilts, with the long gilt being by far the most active, partly because building societies, which are among the largest holders of short gilts, have so far been barred from using futures. Liffe, this year, also introduced options on its long gilt futures contract, and the contract has been very successful.

Business should be boosted in futures and recently-launched options on the Financial Times-Stock Exchange Index of 100 leading UK stocks. These provide the opportunity to hedge a portfolio position or to speculate on the stock market's movement without picking individual stocks. Again, the expanded number of market makers are expected to be attracted to using what has been an inactive futures contract. This is likely to make the market a more liquid and efficient tool for others.

More broadly, Liffe's other contracts, which include dollar interest rates, UK short-term interest rates and currencies, are likely to benefit from London's heightened competitiveness as an international financial centre.

The Stock Exchange's traded options market is expected to see similar benefits. It has options on 43 equities which themselves represent 40 per cent of the stock market's capitalisation, on gilts, currencies and on the FT-SE 100 Index—the latter being strong competition for Liffe's new contract.

The traded options market took years to get off the ground, but grew dramatically when options on British Telecom stock were introduced after privatisation.

Increased business will mean tighter price spreads and more predictable relationships between the derivative and underlying markets. This could open the way for computerised arbitrage, or "program" trading, which has been an important contributor to liquidity in the US markets.

How will the trading floors cope with all this new volume? At the Stock Exchange, the move of most equities and gilts business "upstairs" will probably leave plenty of room for options, which do not transfer easily to a screen-based market and are expected to stay on the floor.

At Liffe, with limited space under the dome of the Royal Exchange, space is being created by moving out executive offices and by increased automation. Liffe expects to keep the floor population stable at around 375, but to automate the jobs of runners so that more of them can be traders; to automate all dealing in less active contracts, so that traders can concentrate on the more active; and possibly to automate the execution of small orders.

Alexander Nicoll

Value Added Tax

Exemptions aid conglomerates

THE DIFFICULTIES, and the arbitrariness, created by the exemption from Value Added Tax granted to most financial-sector transactions have been brought to the fore by the abolition of the stockbroker-jobber distinction.

Before today's re-structuring of the Stock Exchange, stockbroking firms were collecting VAT from their clients worth nearly £200m a year, although more than half that money is recovered by the investors as input tax. The VAT charged by investment managers is even larger.

But while stock broking commissions and investment management fees have been standard-rated, and thus subject to 15 per cent VAT, the dealing spreads between the bid and offer price of shares are VAT-exempt, even though they are effectively the charges imposed by the jobbing or market-making firm for its services.

Earlier this month, the Department of Customs and Excise announced, after discussions with the Stock Exchange, that brokerage commission would become VAT-exempt if the broker dealt through the market-making arm of his own firm. In effect, the commission will be considered as part of the dealing spread. However, if the broker deals through the market-making arm of another firm, VAT will continue to be payable at the standard 15 per cent rate. This decision will give a competitive advantage to the larger "dual capacity" conglomerates at the expense of the traditional agency brokers.

Investment management houses that belong to financial conglomerates with market-making subsidiaries may even be able to avoid the VAT on their own fees by taking them out of the bid-offer spreads when they deal for their clients. However, the new rules to be introduced by the self-regulatory organisations under the Financial Services Bill will make such an arrangement difficult to structure. In any case, investment managers no longer wish to be seen to be too close to their market-making subsidiaries, because of the mounting awareness among clients of possible conflicts of interest. And if they convert their investment management fees into wider dealing spreads in too transparent a fashion, they will fall foul of the anti-avoidance powers of the Department of Customs and Excise.

Even broker-dealer firms will not necessarily be able to save any VAT for their clients, as the VAT which is avoided at one stage in the value-added chain is often picked up again elsewhere. Firms which supply VAT-exempt services cannot normally reclaim the VAT they have paid on the goods and services they have bought. However, a *de minimis* rule applies so that, if VAT-exempt supplies amount to less than 1 per cent of a firm's total supplies, it can continue to reclaim all the VAT on its inputs.

This rule could be used by a securities firm which forms part of a much larger conglomerate whose goods and services are subject to VAT. But the larger banking-securities groups, such as Barclays-BZW or National Westminster, already have a high proportion of their turnover exempt from VAT.

The alternative is to siphon off the group's market-making activities into a separate subsidiary, which is treated as separate for VAT purposes, and to ensure that the subsidiary has as few taxable inputs as possible. Fortunately, labour is the chief overhead paid by most market-making firms. And some other inputs, such as construction, but not refurbishment, are zero-rated, while computer and other equipment will typically be shared with other subsidiaries.

A long-term complication may arise, however, from the consultative document recently published by Customs and Excise, in which the department considers ways of closing some of the loopholes exploited by firms who supply VAT-exempt goods. Its aim is to ensure that they should be able to recover VAT only on expenses related to the making of taxable supplies.

At the other end of the value-added chain, many investing institutions can recover any VAT they pay to stockbrokers as an input tax. Pension funds managers sometimes arrange for the VAT to be paid and recovered by the companies that sponsor the funds. In that situation, no advantage is gained from the conversion of broking/market-making charges into exempt supply, unless the sponsoring company itself produces goods and services that are exempt. Insurance companies and banks in particular often prefer to avoid paying VAT, because they are in such a position.

But the chief beneficiaries of any conversion of stockbroking and market-making charges into a tax-exempt supply will be the private investor, who has no means of recovering the VAT. Ironically, private stockbroking clients who continue to receive an advisory service will be least affected by the changes in the commissions structure that are being introduced today.

Those private investors who start using discount dealing-only brokers will find it advantageous to be charged only the bid-offer spread with no commission. But here, too, the Financial Services Bill will make it difficult for discount brokers to offer an agency service with the guarantee that they will deal on the best terms without charging their clients a commission, rather than taking it out of the dealing spread.

All securities firms seeking to change their corporate structure and their services, to make their supplies VAT-exempt, have to take into account factors other than VAT, including the capital adequacy requirements of the regulatory authorities and corporation tax. And as Mr Peter Lunt, VAT group manager of Thomson McLintock, the accountancy firm, says: "VAT is usually near the bottom of the list of priorities of an organisation when it is considering Big Bang, even if the potential savings are large."

Clive Wolman

Corporate Finance Advisers

Changes in pecking order likely

THE CITY Revolution has profound implications for the corporate finance departments of London's merchant banks—both in the way they conduct their business and in their relations with the companies for which they act—and is likely to lead to a substantial shake-up in the existing pecking order.

In the traditional City, the corporate finance departments used to enjoy a relatively cosy, comfortable existence, devoid of particularly strong competition, as they went about their primary task of placing shares for client companies, introducing them to market and advising them on mergers and acquisitions.

All this has been changing radically over the past few years, due partly to a much more competitive atmosphere between houses (who now try to actively poach clients), partly to the growing inernationalisation of the securities market (bringing in new US competition), and partly to the much wider range of financial instruments that companies can now select.

Big Bang is the most dramatic of these new competitive forces, and the merchant banks have responded in a wide variey of individual ways in an attempt to profit from it.

The corporate finance departments of many of the largest banks—such as Kleinwort Benson and S.G. Warburg—now find themselves part of the huge new integrated securities houses, while some other banks have stood aside from the scramble for broking and market-making talent, in the belief that they can continue to offer a valuable niche service.

Integration offers several major attractions to corporate finance teams, not the least of which is the sheer size and asset backing that this involves. To remain in the very top league, the British merchant banks must be able to provide the same service as that produced by their Wall Street rivals, and that will involve the taking of much greater risks, putting the banks' own capital base into play.

In particular, London is seeing the emergence of the so-called "bought deal," in which a bank itself buys up an entire issue of shares, rather than merely taking prime underwriting responsibility for it until other sub-underwriters can be lined up.

Until recently, the Stock Exchange imposed major limitations on the ability to do this, with its rules on "pre-emption rights," under which existing shareholders should be given the right of first refusal to any new shares on offer. That principle has been gradually eroded, and in June the Stock Exchange flung open the doors to much more radical change when it announced the removal of most restrictions on the issue of new shares.

In the world of the bought deal, a crucial factor in whether a bank makes or loses money on such a transaction will be its sensitivity to market pricing and its ability rapidly to find a home for the securities through a distribution system. The new integrated houses will be able to rely on their own brokers and marketmakers for this expertise, which could give them a vital edge over rivals lacking such flexibility.

At the same time, however, the creation of the new securities houses greatly complicates the potential conflicts of interest that already exist in merchant banks which not only advise corporate clients, but also have investment funds under management. The solution to the existing and future problem is the establishment of so-called "Chinese Walls," or barriers of confidentiality, between the corporate finance, fund management and trading departments of the financial conglomerates, to prevent action in collusion or the leaking of price sensitive information.

The Takeover Panel, the self-regulatory body which governs the conduct of UK takeover battles, said earlier this year that it would be following the line laid down by the Stock Exchange and accepting that the market-making activities of the conglomerates would continue to be run as independent concerns. However, it has required specific undertakings that this will indeed be the case.

Another way of preventing conflicts of interest would have been to close the market-making activities of a group in the stocks concerned in a takeover battle. However, with only one or two jobbers making markets in some stocks, this could have prevented any dealings in these shares.

The panel is, however, making one exception to its general rule: it will not allow the corporate finance arm of a group to advise a bidder and at the same time permit its stockbroking or market-making arm to advise the defending company.

Earlier this month the Takeover Panel announced that it was to create new categories of "exempt" market makers and portfolio managers after Big Bang. This means that the big new financial conglomerates will, subject to certain conditions, be released from the "concert party" rules on buying and selling shares which would otherwise have applied to them when they acted as advisers to companies involved in bids. That said, exemption will only be granted if the groups satisfy the panel that their market making and portfolio management businesses will be operated entirely separately from the corporate finance departments advising companies.

Nevertheless, as this decision highlights, the emergence of the new groupings is bound to make some companies reconsider their ties to their existing corporate finance advisers. Because of Big Bang, relations between the merchant banks and stockbrokers and their clients are in a greater state of flux than ever before.

Martin Dickson

Private Clients

Testing time for small investors' loyalty

SUDDENLY PRIVATE investors are back in favour.

Stockbrokers, who previously prided themselves in building up an impressive list of corporate customers, are now frantically trying to woo back the private client business they previously treated with scant respect. Special private client departments have been set up, accompanied by lots of blurb about the exclusive personal service provided.

The minimum amount needed for the stockbroker to contemplate taking your business has also dramatically been reduced.

Why the change of heart? The most cynical, and probably truest, explanation is that private clients — to put it delicately in the words of one broker — "are more amenable to being charged fees and commissions." In other words they will almost certainly pay more than at present since small investors do not have the muscle of institutional customers to negotiate lower commission rates.

The big boys who have so far subsidised, to some extent, the small investors will no longer be forced to do so in the harsh new competitive world of negotiated commissions. They will have the power, inclination and ability to shop around for the lowest rates to a far greater extent than the small investor.

Stockbrokers also feel that private clients tend to be more loyal than the institutional customer who has to satisfy a board that he is getting the best deal. The relationship between brokers and private clients tends to be more personal, so the feeling is that it is less vulnerable to the siren voices offering lower charges.

Under the post-Big Bang scenario the balance will have shifted with corporate and institutional customers providing the bread and butter business, and small investors the jam for the stockbroker.

Aside from this cynical prospect of small investors being wooed as high profit customers, there is the practical fact that in these days of modern technology and computers it is much easier than it was previously to cope with small investors on a profitable basis.

Dealing with a large number of private clients has in the past been very labour intensive. But nowadays the development of sophisticated computer systems enables information and records of individual client accounts to be available at the push of a button.

So it is much easier for the broker to make money even out of that irritating client who telephones every day with some trifling new set of instructions.

Several brokers have already moved a stage further in identifying and pricing separately the type of service offered. For those clients who want to manage their own portfolio independently and simply use the broker to deal according to instructions, there are cheaper execution-only services like Dealercall (Hoare Govett), Sharecall (Kleinwort Grieveson) and Investorlink (Walker Crips Weddle Beck).

The idea is that you simply make a telephone call, using a special line and quoting an allocated credit card number, to give your selling or buying instructions. That is all. You are not given information on market movements, trends or advice. It is a strictly no-frills service of the kind also offered by speciality discount brokers.

If you want a fuller service — incorporating advice or research — you will have to pay for it in one way or another, either by increased commissions or specific fees for a specific service.

There are two separate approaches. Some brokers plan to charge a management fee. Others will stick to commissions, based on the service provided, partly on the grounds that commissions can be offset against capital gains tax.

But while stockbrokers may hope to earn jam from small investors, they face the prospect of increased competition for the business from a number of sources. With Big Bang exploding the previous tight circle of companies dominating the Stock Exchange, the door is open for a whole range of newcomers to enter.

Barclays Bank has already announced plans to set up a share dealing operation (Barclayshare); the Midland is involved in share shops; and the other clearing banks have made it plain that they propose to move into the same area.

Recent legislation has cleared the way too for building societies to move into share dealings as well, although this may take some time to materialise.

There will be a much greater freedom of choice and many stockbrokers believe that this increased competition will prevent a repetition of the US Big Bang 10 years ago which resulted in private clients being charged more and institutions less.

A more likely pattern, it is argued, is that the way private clients are charged will change but commissions overall will not change much. Institutions, however, will pay less—hence the forecasts of many stockbroking companies going to the wall.

In spite of this potential growth in competition, and the likely restraint on charges as a result, stockbrokers are still very keen to win private client business.

The Stock Exchange recently mounted an expensive promotional campaign specifically aimed at the private investor, and with the new found freedom to advertise individual companies have even resorted to television to publicize their wares. With the Government actively encouraging the spread of individual share ownership to a much wider public there is a huge potential market.

Already the privatisation of British Telecom and others has greatly increased the number of people dealing in shares. More privatisation issues like British Gas will no doubt give an even greater push in this direction.

But possibly the biggest expansion in share trading will come from the Personal Equity Plan (PEP) announced by Mr Nigel Lawson, the Chancellor, in this year's Budget and due to come into effect from January.

The stockbrokers' attitude to PEP has been ambivalent. Some see it as a waste of time and a potential disaster. Others see it as a great opportunity to appeal to a much wider public.

The question is: how can it be operated profitably and who will take the lion's share of the business?

Stockbrokers acknowledge that existing private clients will have to be provided with a PEP package, whatever happens. Even those clients with large portfolios will want to make the most of the tax advantages available.

That is not a particular problem. It is just a service that must be provided if the business is to be retained and brokers are busy trying to work out ways it can be made profitable rather than being a loss leader.

Attracting new PEP business is a different matter. Many, indeed most, of the investors participating will be clients who stockbrokers would not want, even in these more competitive conditions.

But if stockbrokers do not pick up the business, someone else will—the clearing banks in particular are very interested. PEP packages will also be a natural for building societies, insurance companies and unit trust groups.

As the PEP scheme progresses, assuming it is not scrapped by the next government, the potential business will grow enormously as the initial low outlay builds up. It is an area that stockbrokers cannot afford to let go to their rivals, if they are to compete effectively.

Much will depend on the stockbrokers' ability to shed their elitist image and market gobbledegook, and be prepared to take business that may be difficult and unprofitable to handle in the short term.

The mergers and rationalisation that have taken place in preparation for the Big Bang should put stockbrokers in a stronger position to fight for private client business. But it is likely to be a very tough struggle. With so much greater choice, clients' loyalty to stockbrokers will be tested as never before.

Personal relationships are an important factor. In the long term commission and fees will have to be based not just on profitability but also on commercial reality. So Big Bang may not turn out to be as costly for private investors as feared.

John Edwards

Stamp duty

Rates are cut but the reach is extended

THE CHANGES to stamp duty on securities transactions announced in this year's Budget amount to one of the largest reforms of the tax since it was introduced in the 17th century. Together with the halving of stamp duty in 1984, the changes are expected to boost Stock Exchange turnover by about 150 per cent.

The reforms are, in fact, a microcosm of what both the US and UK governments have been trying to do, with varying degrees of success, with their tax systems as a whole; namely, to cut the rates of tax but offset the potential loss of revenue by widening the base through the removal of special exemptions.

As a result, stamp duty has now been imposed on several corporate finance transactions: the company's purchase of its own shares, and the exchange of shares for shares to effect a take-over or merger; although limited relief is granted for internal corporate reconstructions.

The base has been further widened by the introduction of what, legally, is a new tax, the stamp duty reserve tax. The original concept of stamp duty as a tax on documents is left unaltered, and the reserve tax will be applied to transactions which give rise to no stampable documents.

These include the issue of renounceable letters of allotment of shares and share purchases, and other deals which are unwound within the two-week Stock Exchange account period, before any share transfer document is created. Such transactions have accounted for between 5 and 10 per cent of Stock Exchange turnover. That proportion is expected to decline now that the fiscal incentive has been removed.

In administrative terms, the collection of the stamp duty reserve tax will actually be easier for stockbrokers. At present their contract notes to share-purchasers automatically include a stamp duty charge, which then has to be cancelled if the shares are sold within the account period.

In two respects, the Chancellor's Budget plans were diluted in response to strong lobbying. First, the exemption from stamp duty for corporate loan stock was restored, giving it equal status to government gilt-edged securities.

Second, the rate at which stamp duty has been imposed on the conversion of UK company shares to depositary receipts was cut from 5 per cent to 1.5 per cent. The Government imposed the tax in order to stop institutions avoiding the payment of stamp duty by creating American Depositary Receipts, which can then be bought and sold in New York free of stamp duty.

The original rate was considered "punitive" by, amongst others, the Governor of the Bank of England, and probably would have deterred almost all further conversions of UK shares to ADRs. The revised 1.5 per cent rate on conversion is conceived, said the Chancellor, as a "season ticket." The investor pays three times the rate to begin with, but all subsequent transfers are free of the duty.

The imposition of stamp duty on ADRs was partly a response to the complaints of the Stock Exchange that the high rate of stamp duty was making London an uncompetitive international centre and encouraging securities trading to move abroad. Ironically, before the 1983 agreement to end its restrictive practices, the Stock Exchange had implicitly supported stamp duty as a way of bolstering its system of single capacity and its virtual monopoly as an investment exchange for publicly-quoted companies, because Stock Exchange jobbers were almost the only institutions to be granted an exemption from stamp duty.

The other leg of the Chancellor's removal of the fiscal bias against securities trading in the UK was a further halving of the rate of stamp duty (except on ADRs) to 0.5 per cent. This is the same rate as applies in Japan, although it remains higher than in some European countries and in the US (where no stamp duty is imposed).

Before the 1984 Budget, the UK stamp duty rate of 2 per cent was way out of line. The high rate, together with the high minimum commissions prescribed by the Stock Exchange, was partly responsible for the low turnover of shares in the UK. On average a share was traded once every five or six years, it was estimated in 1983, compared with once every two years in New York.

A Bank of England paper—published last October—suggested, on the basis of fairly rigorous statistical tests, that the halving of the stamp duty rate in 1984 will have increased equity turnover by 70 per cent by early 1988. By making equity purchases more attractive, it should have also directly increased share prices by up to 10 per cent. These two factors have thus offset most of the revenue losses to the Government from halving the rate.

The Bank of England model also suggests that the halving of the rate again to 0.5 per cent may boost turnover by a further 50 per cent in the longer term, and should also raise share prices by, perhaps, 5 per cent.

Today's abolition of the broker-jobber distinction has required a revision of the rules for granting exemptions from stamp duty. All recognised market makers on investment exchanges recognised by the embryonic City regulatory body, the Securities and Investments Board, under the Financial Services Bill, will be granted an exemption for dealing in those stocks in which they are market makers (but no others).

In addition, a limited exemption will be granted for broker-dealers who are not market makers, but who nevertheless hold inventories of stock to sell on to clients. Their purchases of stock will be exempt from stamp duty provided that they are sold on within a limited period. However, broker-dealers who go short of stock will have to pay stamp duty when they eventually buy it back.

Clive Wolman

The Chancellor, Mr Nigel Lawson.... His Budget plans were diluted in response to strong lobbying.

Accountants

A tightrope for auditors

THE TRADITIONAL perception of an accounting firm is of an auditor associated with historic cost accounts and true and fair views. The major accounting firms in the City of London, however, are now finding a significant change in their role and their relationship with financially-based clients.

Certainly, few of them would disagree that the really interesting and satisfying work comes from helping these clients develop and control their businesses, and meeting the requirements of the regulatory authorities.

In certain limited areas, the auditors have been an integrated part of the regulatory process for many years. The comprehensive supervision procedures of the Stock Exchange and the role of auditors in connection with building societies immediately spring to mind. Now, bank and security industry regulators plan to extend the auditor's role significantly.

All regulators see auditors as an essential part of the supervisory process. Therefore, accountants should have a significant and unique role to play in the supervision of the City. This is going to be particularly relevant in the months and years that immediately follow Big Bang. But—and it is a major "but"—the role must be clearly defined, so that all involved know exactly what are the responsibilities of the auditor. What will he be required to do beyond his normal role of reporting on the financial statements? The regulators or supervisors are looking for a range of reports from auditors, and expect them to be at the meetings between regulators and their clients.

It would also appear that, in exceptional circumstances, these supervisors (be they the Bank of England, SIB, or one of the self-regulatory organisations) would even envisage meetings between themselves and the auditors without the client present. It should only be in the most exceptional circumstances, such as fraud by top management, that such meetings take place if the traditional relationships of confidence between the client and the auditor is not to be lost.

Inevitably, in the current litigious climate, all auditors must be concerned not to put themselves in a position where they can be sued. A particular worry is whether they have the "right" to report their clients' affairs to the supervisor (and hence could be sued by the client for breaches of confidentiality or damage caused), or a "duty" to report (when there could be litigation by the supervisor if he considers there has been too little disclosure). It is a difficult balance. It must be in all parties' interest that the risk to the accounting firm is not so high that it decides to avoid high-risk clients, who are the very ones the supervisor will desire to be watched most closely.

Another duty that will fall upon auditors is the provision of a report to the supervisor on the adequacy of the accounting records and internal controls systems of their client. This poses many questions, not least of which is: what does the supervisor mean by an adequate control system? Many of the new supervisory rules will affect the relationship of the securities firm with their client. Codes of conduct must be followed. Auditors will need to report on controls outside the usual scope of a financial audit.

The accountant is going to find the scope of his work significantly extended. For those accounting firms with the necessary resources and expertise there will be tremendous opportunities to provide their clients not only with reports to satisfy the supervisor, but also with constructive advice on the development of effective and efficient control systems. Accountancy costs are an increasing concern to many of our clients, but in this area it should be possible quite easily to demonstrate the added value that our advice will give to their business.

A recent survey of senior executives in international investment businesses reported that over two-thirds of those firms contacted either had, or intended to, change their back office procedures and computer reporting systems in the near future. Computer security is just one part of a total control package, yet it catches the imagination more than management information systems.

As the technology develops, at an ever increasing pace, so too must the control systems. They must ensure that only authorised transactions are actioned. There must be adequate "back-up" facilities so that, in the event of computer failure, the company can continue in business. And with so much at stake, there must be systems to protect the computer from hostile employees, extortionists and fraudulent intervention.

One area where there is a particular risk of management information systems and controls lagging behind is in the new money market instruments. Many developments in the marketplace involve "repackaging" existing products. But, as the ingenuity of traders expands, so firms face the problem of assessing the risk associated with the transactions; finding ways accurately to reflect the nature of the transaction in the accounting records and introducing control systems to monitor those risks throughout the life of the transactions.

Swaps, options, futures, caps, collars and the plethora of transactions which, under present conventions, do not appear on an institution's balance sheet, pose problems for management and accountants. Problems can also be viewed as opportunities. Practising accountants should see their role as helping their clients to develop management information systems that will enable them to monitor their business effectively and efficiently.

So the accounting firms must be as aware as their clients of the changes in the marketplace and the change in their role. In the highly competitive financial sector, creativity and flair will be as decisive a factor in the success of an accounting firm as for the clients they serve.

This will be a time of challenge and opportunity for the accounting profession. The winners will be those that can contribute positively to their client's business. This will undoubtedly entail building client service teams of individuals with a broad range of skills and experience.

Accounting firms are already used to fielding specialists in computers, corporate taxation, personal taxation, audit, and the range of traditional accounting skills. Maybe those firms best able to service their clients needs post-Big Bang will have a mix of skills, including treasury managers, computer specialists, statisticians, lawyers and bankers. Are the accounting firms indeed in the midst of a "revolution" of their own?

Keith Woodley
Deloitte Haskins & Sells

Turnover

A big leap predicted

DESPITE SOME £1bn-plus turnover days for the London equity market earlier this year, London is one of the less active of the world's major stock exchanges. Big Bang will have to change that if many of the new market makers setting up in equities and gilt-edged are not to suffer unfortunate fates, as too many traders chase too little business.

Roughly speaking, the average share changes hands only every three or four years in the London market, as against every two years on the New York Stock Exchange, about the same on the Tokyo Stock Exchange, and almost every year on NASDAQ, the decentralised US "over-the-counter" to which the new-style London equity market will be closely similar in size and structure.

There is a similar picture in bonds. Turnover in the US Treasury bond market is gigantic, sometimes over $100bn in a day. Closer to home, in 1985 the Eurobond market, capitalised at around $500bn, reported turnover of $2,200bn.

In contrast, the gilt-edged market, with a capitalisation of some £200bn, could manage turnover on a comparable basis of only the order of £300bn. Small wonder that many London traders are now reckoning that turnover will explode.

One obvious incentive for investors to trade more actively after Big Bang will come from lower commissions. In gilt-edged, it is likely that commissions will disappear entirely (except for investors who decide to use agency brokers, paying commissions of around 1/64 per cent).

For those trading directly with market makers, it is estimated that the cost of trading could halve to around ¼ per cent, represented by the spread between bid and offer prices. But it may take some time before the pattern of the market settles down. Initially, at least, competition is bound to be fierce and spreads narrow.

Until July, much of the trading in the gilt-edged market was based on institutional tax considerations. Gross and net funds effectively used to trade with each other on a year-and-a-day basis, which turned taxable half-yearly dividends into capital gains.

In early July, new tax rules came into effect which removed the incentive for tax switching. On the face of it, this was a blow for many brokers who had grown fat on arranging such business. But others argued that the ending of the tax constraints had, in fact, greatly widened the scope for other forms of trading, which could be based upon yield curve anomalies, interest rate expectations, economic developments and many other factors.

Certainly the American firms which have entered the gilt-edged market makers list will aim to bring US-style trading volumes to the market. Gilts will form part of the package being offered to multi-currency bond traders.

And although many foreigners have been suspicious of gilts in the past, because of currency factors—with the weakness of sterling again a major problem in recent months—it is nowadays easier to hedge the currency.

The gilt-edged market is the world's third largest government bond market, with great liquidity and a wide variety of length and variety of instruments, including cost-of-living bonds. But effective currency hedging techniques will need to be applied before it can be more easily sold to an international clientele.

Liquidity within the market will be greatly assisted by the introduction of firms of inter-dealer brokers, which arrange a private, anonymous, wholesale market between market makers. This market will trade in huge sums, and in itself will generate a leap in volume, perhaps doubling or trebling the reported figures.

But a healthy market cannot be created on the basis of inter-dealer trading. If some traders are clever or lucky enough to take profitable positions, others must make corresponding losses.

The crucial question will be how much trading can be drummed up from outside investors, because it is their willingness to permit the market makers to take a "turn" that will cover the market's substantial costs and perhaps allow it to make a profit. The only other source of profit could be the Bank of England, if it allows the market makers to bid for new issues on favourable terms.

Equities, too, will see a substantial growth in professional trading between the many new market makers. But the prospects for more active trading by investors, especially institutional investors, are more clear-cut.

From today the Government has cut the stamp duty paid by buyers from 1 to ½ per cent. Moreover, the commission paid to brokers, which has averaged some 0.4 per cent for institutions, is likely to come down to near ¼ per cent.

So the cost of a switch will fall from 1.8 to 1 per cent, not counting the further probable benefit of a cut in the jobber's turn (especially in the leading stocks, or alphas). And active institutions will now be able to trade directly with market makers, cutting out all commission.

Arguably, the remaining ½ per cent stamp duty is still large enough to damp down trading, and the Chancellor, Mr Nigel Lawson, is likely to be lobbied to remove it entirely in the near future.

And many fund managers are suspicious of the pressure on them to trade more actively, arguing that it is unlikely to help the client. Academic studies have shown that there is no evidence that actively traded funds perform better. Yet British managers are likely to move at least partly in the direction of their more active American counterparts.

One reason is that fund managers will no longer be afraid their clients will accuse them of lining their own pockets. In the past, stockbrokers (directly) and merchant banks (indirectly) have profited from transactions by client funds; but, with the upheavals of Big Bang, such remuneration structures have mostly been dismantled in favour of flat fees related to the volume of funds being managed.

In theory, such fund managers no longer have an incentive to trade actively. In fact, they have had to take care in the past not to seem to be churning the funds, so somewhat paradoxically the ending of this constraint could be more important in practice than the removal of the incentive.

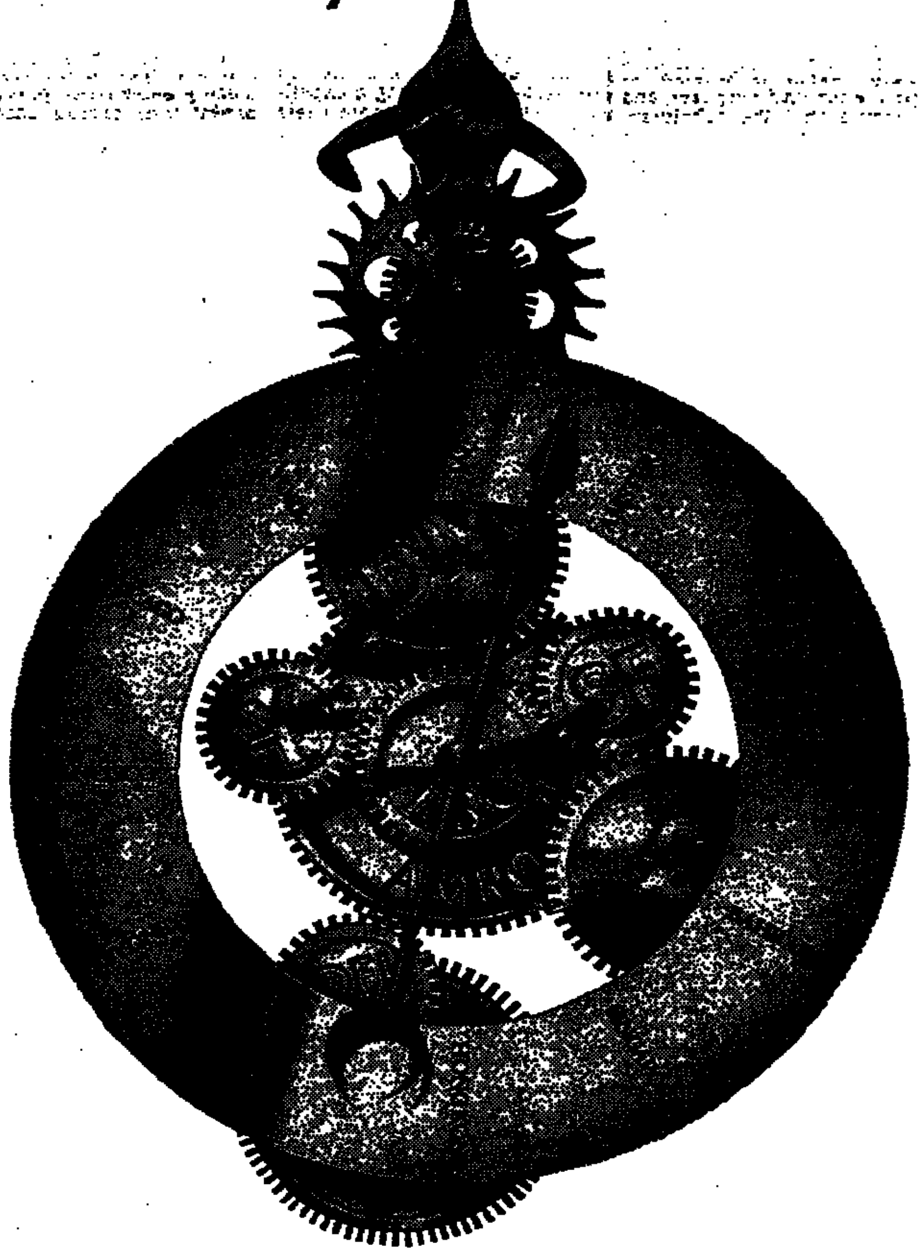
Another factor making for greater turnover is likely to be the increase in liquidity of the marketplace. Fund managers will be able to implement really large transactions, at any rate in alpha securities, without being too concerned that the price will move against them.

Facilities for the economical reconstruction of giant portfolios are now being put together by the trading desks of the big equity market makers, with the Americans, thanks to their well-developed New York expertise, well in the lead. Deals such as the recent £300m purchase and liquidation of the portfolios of Philip Hill Investment Trust by Goldman Sachs could become regular events.

If the market makers have their way, London's long-term institutions will be turned, however reluctantly, into short-term traders.

Barry Riley

At the heart of World currency movement



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